

SUMMARY OF PUBLIC TESTIMONY AT THE
FINANCE COMMITTEE HEARINGS ON TAX
REVISION AND EXTENSION OF TAX
REDUCTIONS

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

BY THE STAFF OF THE
JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION



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INTRODUCTION

The following is a summary of the public testimony on tax revision and extension of the tax reductions before the Finance Committee on March 17-19, 22-26, 29-31 and April 1-2 and 5-9. The topics are organized generally according to the provisions in the House tax reform bill (H.R. 10612), the energy bill (H.R. 6860), and the Administration's proposals on capital formation, estate and gift taxes, social security and unemployment taxes and the taxable bond option. Other topics are as presented by witnesses during the public hearing.

Statements submitted to the committee for the record will be summarized in a separate pamphlet.

PART I—INCOME TAX PROVISIONS

A. Tax Shelters (LAL, Etc.)

1. General

Honorable William E. Simon, Secretary of the Treasury (March 17)

Endorses LAL ("Limitation on Artificial Losses") concept generally so that tax accounting rules no longer be permitted to create artificial tax losses to be deducted against (and shelter from tax) other unrelated income.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Maintains that the various tax shelter provisions permit significant legal tax avoidance by the higher income individuals, and that they have resulted in an erosion of the tax revenues. Endorses the LAL provisions in the House bill, which are directed at a tax deferral problem. Proposes, however, that LAL also apply to corporations to prevent shifting of tax shelter use to corporations. Suggests, in addition to LAL, restrictions on the tax sheltering of leveraged transaction to the money "at risk." (See also comments under "partnerships" below.) Estimates that these combined limitations on tax shelters would raise about \$1.8 billion for fiscal 1977.

Also, objects to the double benefit for long-term capital gains in the offsetting of accelerated deductions against "net related income."

In addition, urges that the House bill effective dates apply for the tax shelter provisions.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Contents that LAL would unnecessarily complicate the tax laws.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Argues that tax shelters are inequitable, wasteful and inefficient. Urges elimination of all tax avoidance through tax shelters. Maintains

that eliminating tax shelters will not dry up investment capital, as it will merely direct capital into economically sound investments.

New York State Bar Association, Peter L. Faber, Chairman, Tax Section (March 19)

Asks that if Congress is going to act in this area, it do it and get it over with, and not string out the consideration over several years as that contributes to tax uncertainties because of proposed retroactiveness. Urges keeping the provisions as understandable as possible so that attorneys can explain them to their clients as well as being able to comply with the law. (Indicates that a more detailed statement would be submitted on the House bill provisions.)

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Opposes the House-passed proposals with respect to tax shelters.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Opposes the limitation on artificial losses (LAL) provisions in H.R. 10612.

American Bar Association, Section of Taxation, Sherwin P. Simmons, Chairman, (April 9)

Considers LAL to be an example of adding unnecessary complexity to the tax laws. Indicates that LAL attempts to limit the use of tax shelters through the "creation of new categories and subclasses of property and by the establishment of intricate accounting rules which produce different results between the various categories of property covered." Maintains that the reform goals of these provisions can be more effectively achieved by less complex methods—such as through the minimum tax.

Asserts that certain aspects of the tax shelter provisions can be best handled by an expanded audit program under existing law: cites bill sections 205 (prepaid interest), 207 (application of LAL to films and livestock and certain crops), 208 (intangible drilling and development costs, and 209 (allocation of basis to certain assets).

Urges that Congress simplify the Internal Revenue laws to the maximum extent consistent with basic equity, efficiency and the need for revenue so that such laws can be easily understood and complied with by taxpayers and fairly and consistently administered and enforced by the Treasury Department. Suggests that Congress cause its tax writing committees promptly to undertake and publicly commit themselves to a scheduled, long-range, systematic program to achieve such simplification, and that the tax writing committees obtain comprehensive proposals for simplification from the Treasury Department. In addition recommends that Congress designate a group, such as a separately funded section of the staff of the Joint Committee on Internal Revenue Taxation, a separate commission, or other appropriate body, to assist and advise the Congress with regard to tax simplification.

(The ABA Section of Taxation presented an additional statement giving detailed technical comments and recommendations on the House bill provisions and on previous Section tax recommendations.)

2. Real Estate

Honorable William E. Simon, Secretary of the Treasury (March 17)

Favors the House bill provision on aggregation, although notes that the 1973 Treasury proposal would have allowed aggregation of all income from residential real estate and applied a property-by-property rule for commercial real estate. Considers the House provision to simplify the LAL computations.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Maintains that LAL should be applied to real estate on a property-by-property basis as it is for the other LAL provisions. Asserts that the House provision will favor the largest operators and encourage certain real estate packaging arrangements designed to take advantage of the loophole. Urges adoption of the Mikva amendment offered on the House floor.

In addition, recommends full recapture of all depreciation (not just the excess over straight line) for commercial real estate (effective after December 31, 1976). In the case of residential real estate (other than for low-income housing), endorses the House provision; for low-income housing, favors retention of present recapture rules.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Proposes that LAL apply to real estate on a property-by-property basis.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Opposes LAL because it is complex, inherently discriminatory, and would distort the flow of risk taking capital. In addition, maintains that interest and taxes incurred during the construction period is not an artificial loss.

National Rural Housing Coalition, Cushing S. Dolbeare, Executive Secretary (March 23)

Urges the committee to strengthen the provisions in the House bill dealing with real estate tax shelters and LAL.

National Apartment Association, Don Lawrence, President (March 23)

Claims that LAL is discriminatory and impacts more heavily on real estate as compared to investments in other industries. Points out that the real estate industry is already depressed.

National Housing Partnership, Sidney Freidberg, Executive Vice President and General Counsel (March 23)

Recommends that low- and moderate-income housing be permanently exempted from the limitation on artificial losses. However, if the committee decides to retain the five-year exemption from LAL provided in the House bill rather than a permanent exemption, urges the committee to delete the requirement that there be a subsidy commitment entered into by January 1, 1979.

National Realty Committee, Inc., Albert A. Walsh, President (March 23)

Opposes the LAL provisions on real estate. Claims that the House bill provisions would have a significant adverse impact on real estate investment and employment. Believes that the bill would introduce unnecessary complexities in understanding and administration of the tax law. Contends that real estate is being unfairly treated, as notes that no restrictions comparable to the construction period interest and taxes are suggested for the deductibility of interest incurred by a business to carry inventory or to construct machinery and equipment, or upon interest and taxes incurred in the pre-productive phase of farming. Feels that it is incorrect to label real estate construction period items as "paper deductions" or "artificial" losses.

Indicates that since LAL do not apply to corporations, the enactment would favor large corporate enterprises over smaller unincorporated businesses.

National Association of Home Builders, John C. Hart, President (March 23)

Objects to the application of LAL to real estate. Asserts that LAL would unfairly discriminate against real estate and would result in "overkill."

International Council of Shopping Centers, Wallace R. Woodbury, Chairman, Tax Subcommittee (March 23)

Objects to applying LAL to real estate.

Council of State Housing Agencies, Kenneth G. Hance, Jr. (March 23)

Urges that the committee remove the requirement that in order to be exempt from LAL a subsidy commitment must be obtained before January 1, 1979.

George Brady, Ad Hoc Coalition for Low and Moderate Income Housing (March 23)

Recommends an exemption from LAL for low-income housing if the construction period begins before January 1, 1981. Also recommends that the depreciation recapture change for low-income housing should not apply to construction begun before January 1, 1976.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Recommends that the LAL real estate provisions be carefully designed so as not to adversely affect construction by bona fide industrial corporations of their own buildings.

Donald M. Gamet, Vice Chairman in charge of Tax Practice for Arthur Anderson & Company (March 31)

Expresses concern about the impact that Limitations on Artificial Losses (LAL) would have on real estate investments. Several examples were provided which indicate that LAL might lessen real estate involvement.

Associated General Contractors of America, represented by Bill Hofacre, Vice President, Daniel International Corp. (April 2)

Objects to LAL with respect to housing as discouraging investment.

3. Farming

Honorable William E. Simon, Secretary of the Treasury (March 17)

Supports the application of LAL to farming activities but not the more stringent House rule to farm syndicates. Instead, proposes that farm syndicates be dealt with directly by requiring them to use the accrual and inventory method of account (in the same manner as for nonfamily farm corporations).

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Recommends requiring all corporate farming operations to use the accrual method of accounting if the gross sales from farm activities exceed \$100,000 per year. Indicates that this would apply to only about 115,000 farms, or 3.8 percent of the total. States that the House bill exceptions for subchapter S and "family owned" corporations may include some large corporations which should be able to use accrual accounting.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Urges repeal of the existing excess deductions account for farming, but with no LAL to replace it.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Objects to the exclusion of poultry from the exemption provided in the House bill for "livestock other than poultry." Contends that this discriminates against an important part of the agricultural industry in Arkansas. Maintains that the provision should apply (or not apply) to poultry as well as other livestock. Also suggests that rice and soybeans be added to the favored group of crops. Considers the LAL provision to be an example of special-interest exceptions, grandfathered dates, and increased complexity of tax laws.

In addition, sees little reason for the special rules in section 204 of the bill requiring accrual accounting for certain farming corporations. Considers the special exceptions to be discriminatory and complicated. Suggests that section 204 be deleted from the bill.

National Livestock Tax Committee, Claude M. Maer, Jr., accompanied by representatives of American National Cattlemen's Association And National Livestock Feeders Association (March 22)

Recommends the following with respect to farming operations:

(1) Farm losses should be limited to capital at risk (as is done under section 207 of H.R. 10612).

(2) Limited partnerships registered with the SEC should be taxed as corporations.

(3) The excess deductions account provided under code section 1251 should be terminated.

(4) Code section 183 (relating to activities not engaged in for profit) should be amended by (a) restricting the scope of the waiver of the statute of limitations (as provided in section 211 of H.R. 10612); and (b) extending the 2 of 7-year presumption now applicable only to certain activities related to horses to all livestock operations.

(5) The limitation of artificial losses approach of the House bill should be rejected on the grounds that it is too complex, highly discriminatory, too costly, to comply with, and not necessary to curb abuses.

(6) Mandatory accrual accounting should not be imposed on any farm corporations or partnerships.

(7) The material distortion of income test which the IRS is applying to cash basis taxpayers should be discontinued.

American Association of Nurserymen, Inc., Robert F. Lederer, L. J. Donahue, and John Manwell (March 22)

Oppose section 204 of H.R. 10612, requiring accrual accounting for certain farm corporations, on the grounds that it is impossible to reasonably inventory growing plants. Also, object to LAL generally, and state that there is an inadequate definition of farm income and distinction between that and nonfarm income especially for integrated nursery operations which have both wholesale and retail operations.

Forests Industries Committee on Timber Valuation and Taxation. Edward Knapp, Henry Barclay, Jr., A. Felton Andrews, and K. C. Van Natta (March 22)

Object to the application of LAL to timber operations and the application of required accrual accounting to corporations raising timber.

4. Oil and Gas

Honorable William E. Simon, Secretary of the Treasury (March 17)

Opposes the application of LAL to any oil and gas activities, as well as the recapture of intangible drilling cost deductions. Maintains that now is not the time to place further impediments on the domestic oil energy because of the shortage of energy exploration and development activities. Assets that such activities have already been hampered by the repeal of percentage depletion for major oil and gas companies, the limitations on the foreign tax credit, and the continuation of price controls.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges application of LAL to exploratory wells. Indicates that SEC data show that two-thirds of the offerings in tax shelter drilling funds are for exploratory wells.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Feels that LAL should also apply to exploratory oil drilling as well as to developmental drilling.

Allen Thomas, Central Bank of Denver (March 25)

Argues that the House bill contains production disincentives which are incompatible with conventional financing techniques for oil and gas exploration because they will result in a reduced cash flow to the producer, which reduces his ability to repay his loans. Believes that banks would no longer be able to loan money given this reduced cash flow and the resulting increased risk in the loans. States that the resulting decreased investment would be detrimental to the nation's drive for energy self-sufficiency.

Small Producers for Energy and Independents, Robert M. Berren, (March 25)

Asserts that the provisions of the House bill, when taken together with the changes in percentage depletion which resulted from the Tax Reduction Act of 1975, would seriously impair the ability of the independent entrepreneur to compete in the oil and gas exploration business. Claims that total Federal income tax could be as high as 100 percent of taxable income as reduced by the cost of any intangibles which could not be deducted because of LAL.

Charles D. Fraser, First National Bank of Midland, Texas (March 25)

Opposes any proposed changes in the present treatment of intangible drilling and development expenses. Believes that the cumulative effect of other pieces of recent legislation has been to reduce the oil industries' ability to generate capital; that this inability will be substantially increased if the proposals in the House-passed bill become law. Believes that the House legislation will reduce internally generated funds available to independent oil and gas operators by one-third to one-half of the present level. Argues that this means current bank loans could not be paid off on time and believes that longer period loans would not be feasible for the banks.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Company, U.S.A. (March 25)

Object to proposals which would limit the current deduction of intangible drilling and development costs, on the basis that the removal of these provisions would decrease the amount of investment capital available to independent producers.

Independent Petroleum Association of America, A. V. Jones, Jr., President (March 25)

Urges rejection of the proposals to change the present tax treatment of intangible drilling and development costs by treating these costs as tax shelter items, on the basis that the present treatment of intangible drilling and development costs is necessary to partially overcome the inherent bias against such risky investments.

Small Producers for Energy Independents, Robert R. Nathan (March 25)

Argues that the House bill not only cuts off a substantial source of outside funding for many independent oil and gas producers, it also limits the value of the deduction to the producers themselves, and therefore cuts down their own incentive to produce. Believes that it will be difficult for independents to replace money from new outside sources since the money is "risk capital" which cannot readily be interchanged with other types of investment funds.

Domestic Wildcatter's Association, Alan C. King (March 25)

Believes that the LAL provisions of the House bill and other restrictions affecting investment in the oil and gas industry will result in a tremendous reduction in cash flow for those in that industry, and

as a result, would result in a substantial reduction in new exploration. States that if the House bill were passed his company would require a 32-percent decrease in their expenditures for new exploration in order to maintain present cash flow levels.

Associated General Contractors, Bill Hofacre, Vice President, Daniel International Corp. (April 2)

Opposes application of LAL to oil and gas as discouraging investment.

5. Movies

Columbia Pictures Industries, Inc., Leo Jaffe, Chairman, Alan J. Hirschfeld, President, and Burton S. Marcus, Vice President and General Counsel (March 24)

Oppose the LAL and "at risk" provisions of the House bill on the ground that these provisions discriminate unreasonably against film investment (compared with the treatment of other industries such as real estate, oil and gas, and farming). Also state that these provisions will further concentrate production in a few studios and will force companies to make films outside the U.S. Assert that income forecast depreciation and costs of producing a move are not "accelerated" deductions, but that LAL should at least allow some depreciation equivalent to a straight-line portion of depreciation which LAL permits for real estate. Argues that the committee should act solely to cure abuses by the least disruptive means and not eliminate all tax incentives for investments in films. Maintains that abuses can be pinpointed by limiting the amount of leverage to receive tax benefits and by shortening the period when a nonrecourse loan must be repaid.

Suggests the "at risk" rule be eliminated altogether, and that LAL be adopted for unusual transactions but be made inapplicable to deductions if:

(1) The investors supply equity equal to at least 25 percent of the film's total cost;

(2) Any loan funds borrowed by the investors must be repaid within 5 years after the film is first exhibited; and

(3) A substantial portion of the film costs (e.g., 80 percent) are expended in the United States.

International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators of United States and Canada (IATSE), Walter F. Diehl, International President (March 24)

Indicates that unions and guilds in the motion picture field benefit from investor risk capital which helps produce motion pictures. States that abuses in this area should be rectified without depriving the industry of tax incentives available to investment in other industries.

National Conference of Motion Picture and Television Unions, Sam Robert, Executive Coordinator (March 24)

Favors the proposal by Columbia Pictures (above) in order to eliminate abuses while permitting some tax incentives for studios, independent producers and other film makers.

East Coast Council of Motion Picture Unions, Steve D'Inzillo, Chairman (March 24)

Believes that the provisions of the House passed bill concerning movie shelters will have an adverse effect on employment of projectionists and opposes these provisions for that reason. Supports the proposal outlined by Mr. Marcus of Columbia Pictures (above).

Screen Actors Guild, Kathleen Nolan, National President (March 24)

Opposes the provisions of the House-passed bill with respect to movie shelters. Points out that many nations provide a subsidy to their filmmakers. States that unemployment in the film industry is already very high and that film production has been on the decline in recent years. Believes that elimination of tax incentives would make this situation worse. Supports the proposal of Mr. Marcus (above) to allow limited tax incentives in this area.

National Association of Theatre Owners, Paul Roth, Chairman (March 24)

Objects to the provisions of the House passed bill with respect to movie shelters. Believes enactment of these provisions will harm theatre owners by reducing the number of quality films which are available to be shown. Also feels, however, that some restriction may be necessary in this area to prevent tax abuse and supports the proposals outlined by Mr. Marcus (above).

6. Equipment Leasing

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Opposes LAL with respect to equipment leasing on the grounds that it will discourage investment in this area.

7. Sports Franchises and Player Contracts

Honorable William E. Simon, Secretary of the Treasury (March 17)

Considers the application of LAL to sports franchises to be an unwarranted extension of the LAL rules, as the 1973 Treasury proposal did not contemplate such application of LAL. Contends that any abuses in the area of excessive valuation of player contracts or where they are amortized over too short a period can be dealt with by the IRS. Also, asserts that the special allocation and recapture rules in the House bill are arbitrary since they apply only to sports franchises.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Endorses House provision governing the allocation of the consideration paid for purchase of a sports franchise between depreciable player contracts and the nondepreciable franchise.

Honorable Richard (Dick) Stone, U.S. Senator, Florida (March 19)

Requests that the provisions affecting sports franchises (basis limitation for player contracts, depreciation recapture, and LAL) not apply to the Tampa and Seattle National Football League fran-

chises. Suggests that either the effective date of the House provision be postponed to a time subsequent to the actual selection of players by these franchises or that the following language be added to the effective date provision (for the proposed new section 1056(d)(3) of the Code):

"In no event shall such provisions be applicable to any player contract acquired as a result of the transfer or issuing of a new franchise prior to the effective date of this provision [December 31, 1975]."

Pete Rozelle, President, National Football League (March 24)

Objects to the application of LAL to sports franchises, to treatment of a portion of the depreciation on player contracts as a preference subject to minimum tax, to the special depreciation recapture rules for player contracts, and to the presumption that no more than 50 percent of the franchise purchase price is allocable to player contracts. Does not object to codification of administrative rulings that player contracts are subject to present depreciation recapture rules or to requirement that both buyer and seller of a sports team allocate the same amounts to player contracts and franchise costs.

Bowie K. Kuhn, Commissioner of Baseball (March 24)

Opposes provisions affecting professional sports (LAL, special depreciation recapture, allocation of team purchase price, and minimum tax provisions for player contract depreciation).

Robert O. Swados, Special Tax Counsel, National Hockey League (March 24)

Objects to the provisions relating to sports franchises. Specifically, opposes the presumption that no more than 50 percent of a franchise purchase price is allocable to player contracts, the special depreciation recapture rule, and application of LAL to sports franchises. Does not object to requirement for consistent allocation by the buyer and seller of a sports franchise but indicates that franchise transfers might be discouraged or delayed if the tax consequences must be negotiated at the same time the parties deal with the economics of the transaction.

Ronald S. Schacht, National Basketball Association (March 24)

Opposes all provisions of the House bill affecting sports franchises.

8. Prepaid and Nonbusiness Interest

Honorable William E. Simon, Secretary of the Treasury (March 17)

Objects to the \$12,000 limit on nonbusiness interest deductions as arbitrary. Argues that this would deter individuals from borrowing to purchase assets, and that it could have the effect of disallowing permanently deductions for home mortgage interest because of the absence of a carryover for unused personal interest deductions. Believes that any problems relating to the use of interest and other itemized deductions can be handled adequately by treating the amount of itemized deductions (other than contributions) in excess of 70 percent of AGI as an item of tax preference includible in the minimum taxable income (MTI) base. (See also summary under minimum tax.)

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Endorses House provisions placing limitations on deductions for prepaid interest and nonbusiness interest.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes the House provision to limit the nonbusiness interest deduction to \$12,000 per year.

National Association of Manufacturers, Roland M. Bixler (March 18)

Urges deletion of the House provisions to limit the deduction on personal and investment interest.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Generally supports provision to limit nonbusiness interest deduction to \$12,000 a year. Suggests, however, that consideration be given to disallow any interest deduction on residences other than the taxpayer's principal residence. Questions the wisdom of the general taxpayer subsidizing the interest deduction for vacation homes for the more affluent.

C. M. Gatton, Bristol, Tennessee (March 22)

Opposes limitation of the deduction of nonbusiness interest in the House bill and wants the current \$25,000 limitation to be eliminated or increased substantially. Objects to the House bill's requirement that prepaid interest cannot be deductible in advance of the time period to which it applied. Favors legislation to permit dividends from electing Subchapter S corporations to be used as an offset to investment interest expense.

Government Services Savings and Loan, Inc., Arthur J. Phelan, Jr., Chairman of the Board and Chief Executive Officer (March 22)

Objects to section 206 of H.R. 10612, which would impose the limitation of \$12,000 on the deduction for nonbusiness interest in excess of investment income. Criticizes the provision on the ground that it does not give enough detail in the definitions of business interest and does not have procedural guidelines for handling transitional inequities.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Opposes the limitation on interest expense deduction. States that this limitation is the first step to the possible elimination of any home mortgage interest deductions.

National Realty Committee, Inc., Albert A. Walsh, President (March 23)

Opposes the limitation on nonbusiness interest as being inequitable and administratively difficult to distinguish between personal investment and business interest.

American Bankers Association, William M. Horne, Jr., Chairman, Taxation Committee (March 26)

Objects to the limitation on deduction for nonbusiness interest expenses because it would permanently disallow personal interest deductions.

National Association of Home Builders, John C. Hart, President (March 23)

Opposes the limitation on deductibility of nonbusiness interest paid.

International Council of Shopping Centers, Wallace R. Woodbury (March 23)

Urges rejection of the limitation on interest deduction provision in the House bill.

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Recommends deletion of the interest limitation in the House bill on the grounds that it will discourage equity investment.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Opposes the House bill provision limiting the permissible deduction for nonbusiness interest to \$12,000 a year plus net investment income.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Urge rejection of the House bill provision limiting the permissible deduction for nonbusiness interest to \$12,000 a year plus net investment income. Object to the concept of Congress deciding what is a standard of living that is "clearly out of the ordinary" as stated in the committee report.

Thomas L. Christie, Senior Vice President, Merrill Lynch and Company (April 5)

Opposes the House bill \$12,000 limit on interest because it will have a detrimental effect on investment.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Opposes \$12,000 annual limit on deduction of interest paid by individuals because the limit would adversely affect the housing market.

National Savings and Loan League, Gilbert Roessner, Past President (April 7)

Objects to the limitation on deduction of interest by individuals because in the future, when the cost of housing rises, the limitation will cause a portion of the interest paid on home mortgages to be non-deductible.

9. Partnerships

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Proposes that in the case of limited partnerships—the primary legal form used to market most syndicated tax shelter deals—the investor's tax deductions be limited to the actual financial risk, effective for part-

nerships formed after April 1, 1976. (However, in the case of limited partnerships engaged in the construction or rehabilitation of low-income housing, suggests that the changes not be effective until January 1, 1981, in order to give time to develop alternative financial assistance.) Indicates that this would prevent a limited partner from deducting amounts attributable to nonrecourse financing (where the investor has no liability for the borrowed funds). Also, recommends accrual accounting for "publicly-held limited partnerships" (definition derived from the definition of a "farming syndicate" in section 101 of the House bill).

In addition, endorses the House provisions relating to the limitation on partnership additional first-year depreciation, and the provisions clarifying partnership rules as to the proper treatment of syndication and organization fees, retroactive allocations of partnership income or loss, and special allocations.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Company, U.S.A. (March 25)

Opposes as unnecessary the proposals concerning allocation of partnership deductions.

10. Other Items

Honorable William E. Simon, Secretary of the Treasury (March 17)

Contents that the "at risk" limitation provision would overturn more than 20 years of established commercial and financial practice, and adversely affect the general business community as well as passive investors. Considers LAL to be a better remedy than the "at risk" limitation because the latter can result in distortions of income for individuals and corporations as taxpayers will be able to elect to increase their capital "at risk" in years which the deductions yield the greatest tax benefit. Also, indicates that the scope of the definition of "at risk" in the House bill is not clear.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes a limitation on deductions to the amount "at risk" as a further complication as well as a discouragement to leveraged investments.

B. Minimum Tax

Honorable William E. Simon, Secretary of the Treasury (March 17)

Considers the minimum tax to be defective in that (1) since it is an additional tax, it taxes the preferences even where significant regular income tax is paid (and especially under the House provision which eliminates the deduction for taxes paid) and (2) it does not solve the problem of taxpayers who are able to shelter large amounts of income from regular tax as the tax is only at a 10-percent flat rate. Believes that the inclusion of real estate taxes and interest during construction as a tax preference when not covered by LAL is conceptually unsound and would have an adverse affect on real estate development. Urges elimination from tax preferences any provision relating to oil and

gas—the intangible drilling cost deduction and percentage depletion. Contends that these provisions would impair the financial ability of such firms in oil and gas exploration and development.

Renews “minimum taxable income” (MTI) proposal as a substitute for present minimum tax. Indicates that the MTI is an alternative tax based on an expanded AGI to prevent large amounts of preference items from reducing taxable income to little or nothing. Suggests that the 1973 Treasury MTI proposal be modified to exclude charitable contributions and percentage depletion from the MTI base, and that the alternative tax be computed on 60 percent of the MTI base rather than 50 percent. The tax preferences covered in the MTI base would be (1) the excluded portion of capital gains and (2) itemized deductions (other than charitable contributions) in excess of 70 percent of AGI (with a \$10,000 exclusion before applying the 60 percent). The taxpayer then pays tax at the regular rates (individuals only) on the larger of the regular taxable income or the MTI base.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Supports the House bill revisions in the minimum tax as a step in the right direction; however, urges application of the changes for corporations as well. Recommends elimination of the deduction for taxes paid and the carryover provision, as well as reduction of the exclusion level to \$5,000 (the approximate income tax exemption level for a family of four), with a dollar-for-dollar phase-out so that the exemption disappears at \$10,000 of preference income. Concludes that the exemption level should be eliminated entirely for corporations and that the tax rate should be increased to 20 percent (or at least to 14 percent). In addition, proposes that the minimum tax base include the excess of intangible drilling and development deductions (for individuals and corporations), and the excess of itemized deductions over 70 percent of AGI for individuals. Estimates that his minimum tax reform proposal would raise about \$2.6 billion in fiscal 1977 from individuals and \$0.5 billion from corporations.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Urges the removal of stock options from the tax preference status. Maintains that if Congress determines certain tax provisions to be improper, then they should be modified rather than included as a tax preference with a penalty tax.

National Association of Manufacturers, Roland M. Bisler (March 18)

Indicates that, if there is to be a minimum tax, it should be an alternative tax and not an additional tax. Opposes the House bill changes in the minimum tax. Urges that full deduction for regular taxes paid be maintained.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Favors strengthening the minimum tax as in the House bill. Asserts that an “alternative” minimum tax in lieu of LAL and the House provision would allow tax shelters to continue to flourish and be untouched by the minimum tax.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Maintains that the present minimum tax is only a token effort to insure that everyone pays a fair tax, as the minimum tax is a flat 10 percent regardless of the amount of preference. Feels that under an equitable tax system there would be no need for a "minimum tax." Recommends, in the meantime, that the minimum tax be strengthened by lowering the \$30,000 floor to at most \$10,000, removing the deduction for regular income taxes, enlarging the list of tax preference items, and making it progressive in impact.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Opposes the increase in the minimum tax since most of the impact is on capital gains.

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Believes that the minimum tax should not be imposed on farm losses (although perhaps favoring the imposition of the minimum tax on farm losses that exceed capital "at risk").

C. M. Gatton, Bristol, Tennessee (March 22)

Maintains that capital gains should not be included as a tax preference.

Forest Industries Committee on Timber Valuation and Taxation (March 22)

State that capital gains on timber sales should not be taxed as a preference item. Also, oppose changes in the minimum tax, raising the rates, reducing the deduction for taxes paid, and reducing the \$30,000 preference exemption. Favor a Minimum Taxable Income (MTI) approach of the sort proposed by Mr. Jones of Oklahoma on the House floor.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Objects to the addition of interests and taxes during the construction period to the list of tax preference items for purposes of the minimum tax. Feels that these expenses are not preference items but are legitimate out-of-the-pocket expenses.

Supports the concept of an "alternative tax" designed to curb abuses and assure that all taxpayers pay their fare share. States that this would provide a more comprehensive approach to dealing with tax shelters without the severe effects of LAL on all investors regardless of tax status.

National Apartment Association, Don Lawrence, President (March 23)

Opposes the minimum tax approved by the House bill and favors the substitution of a minimum taxable income approach. Believes that in computing the minimum tax, the taxpayer should be allowed a deduction for Federal income taxes paid. Recommends that the non-recognized portion of capital gains be eliminated as an item of tax preference.

National Housing Partnership, Sidney Freidberg, Executive Vice President (March 23)

Urges the committee to exempt all tax preferences generated by low- and moderate-income housing from the minimum tax provision.

National Realty Committee, Inc. Albert A. Walsh, President (March 23)

Supports the concept of an overall limitation on the use of tax incentives where the aggregation of such incentives in any taxable year is excessive. Believes that the best approach would be along the lines of the Limitation on Tax Preferences (LTP) proposed by the Treasury in 1969. Favors an "alternative" minimum tax approach, in contrast to the "additional" tax contained in the House bill.

National Association of Home Builders, John C. Hart, President (March 23)

Supports increase in minimum tax rate from 10 to 14 percent but recommends against any greater increase. Objects to the inclusion of construction period interest and taxes as a tax preference item, whether or not subject to LAL.

Ad Hoc Coalition for Low and Moderate Income Housing, George Brady (March 23)

Maintains that the minimum tax should not apply to construction period interest and taxes not limited by LAL. Recommends that all tax preference items related to low- and moderate-income housing be exempted from the minimum tax provisions of the House bill.

Wallace R. Woodbury, International Council of Shopping Centers (March 23)

Opposes adoption of the minimum tax in the House bill. Suggests that an alternative minimum taxable income approach is more reasonable, where minimum taxable income would be the greater of taxable income under present law or 50 percent of the sum of taxable income and tax preferences. If the minimum taxable income exceeds taxable income under present law, disallowed tax preference should be carried over as a deduction in subsequent years.

Council of State Housing Agencies, Kenneth G. Hance, Jr. (March 23)

Urges that all tax preference items generated by low-and moderate-income housing be eliminated from the minimum tax.

New York City Bar Association, Robert H. Preiskel, Chairman of Committee on Taxation (March 25)

Argues that tax preferences which do not produce benefits commensurate with their cost should be dealt with by eliminating or reducing the preference directly rather than superimposing a complicated system limiting the preference (such as LAL). To the extent that excessive use of preferences by individual taxpayers is a problem, asserts that an alternative minimum tax should be adopted to reduce the value of all preferences to all taxpayers.

Recommends that an alternative minimum tax be established which limits the deductions of items considered to be preferences to a cer-

tain percentage, such as 50 percent, of taxable income computed without regard to the preferences. Does not indicate what preferences should be included in alternative minimum tax proposal but states that framework should begin with taxable income and add preferences to it. Believes tax preferences should not be allowed to the extent they exceed 50 percent of this expanded income. Argues that a carryover should be provided for preferences that are disallowed under this proposal.

Independent Petroleum Association of America, A. V. Jones, Jr., President (March 25)

Urges rejection of proposals to extend the minimum tax for individuals to include exploration and development expenditures for oil and gas wells.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee (March 26)

Recommends elimination of the minimum tax on corporations.

American Textile Manufacturers Institute, John T. Higgins (March 30)

Requests elimination of rapid amortization on pollution control facilities as a tax preference item. Also proposes that, for bona fide industrial corporations, the minimum tax be eliminated, or at least accelerated depreciation on industrial buildings should be eliminated as a preference item.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Opposes the House-passed proposals with respect to the minimum tax.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Recommends that the minimum tax be repealed with respect to corporations.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Oppose the minimum tax provisions in H.R. 10612. Support a true minimum tax on an economic income such as that outlined by Representative Jones during House floor consideration of the House bill.

Propose the elimination of the 5-year write-off for pollution control facilities as a tax preference item subject to the minimum tax. Also, favor removal of capital gains as a tax preference item.

Donald M. Gamet, Vice Chairman in Charge of Tax Practice for Arthur Andersen & Co. (March 31)

In lieu of LAL, recommends a minimum taxable income concept. Under this recommendation, an individual would pay the higher of regular income tax on taxable income after considering preference items or a tax at regular rates on a portion of expanded taxable income

which would include preference items. (A comparison of taxes due under the proposal and LAL was provided.)

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Urges repeal of minimum tax on corporations and deletion of capital gains from list of tax preferences.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Oppose the minimum tax changes in the House bill because it will increase the tax rate on capital gains. Claim that this will be counterproductive.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Co. (April 5)

Favors the alternative minimum tax approach rather than the add-on tax as in the House. Contends that the latter penalizes capital gains as the primary "preference" item.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Suggests that the committee re-examine whether it is appropriate to include the bad debt deduction allowed savings and loan associations among the items subject to the minimum tax. Supports the decision of the House not to revise the minimum tax formula for corporations.

National Savings and Loan League, Gilbert Roessner, past President (April 7)

Proposes that the minimum tax rules be amended so that the special bad debt deduction allowed savings and loan associations would not be treated as a tax preference item because the minimum tax on this item reduces the industry's ability to supply mortgage credit. Believes that the treatment of the bad debt deduction as an item of tax preference has created inequity between savings and loan associations and commercial banks because interest on tax-exempt securities held by commercial banks is not treated as a preference item.

Honorable Dewey F. Bartlett, U.S. Senator, Oklahoma (April 7)

Opposes the expansion of the minimum income tax rules to include intangible drilling costs as an item of tax preference because it would discourage drilling by producers.

American Council on Education, Durward B. Varner, President, University of Nebraska, accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Support the minimum tax provision in Title III of H.R. 10612 with the following modifications:

(1) that trusts and estates be excluded from the application of the "excess itemized deduction" concept;

(2) if complete exclusion is impossible, suggest that the proposed section 57(d) be revised to permit a trust or an estate to exclude the deductions provided by sections 642(c) (relating to the deduction of

amounts paid or permanently set aside for a charitable purpose), 651 (referring to trusts), and 661 (relating to estates and trusts accumulating income or distributing corpus).

Urge that any modification of the preference income tax or substitute alternate tax on economic income treat the charitable contribution deduction separately, so that no direct or indirect tax is imposed which has a material impact on such contributions. Note that Treasury's revised MTI proposal (March 17, 1976) is structured to "avoid completely all impact on charitable contributions."

Council on Foundations, Inc., Robert F. Goheen, Chairman (April 8)

Requests that any minimum tax adopted by the committee not discourage large gifts on which many educational and other charitable organizations depend.

Opposes any distinction between contributions to private foundations and other 501(c)(3) organizations for purposes of the minimum tax as unjustified on the basis of private foundations' compliance with restrictions imposed by 1969 Tax Reform Act.

Coalition for the Public Good, Donald A. Tollefson (April 8)

Accepts the minimum tax provision in the House bill (H.R. 10612). Recommends that the minimum tax not include as a preference item the appreciation in property of gifts to charity.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Oppose subjecting charitable contributions to any form of minimum tax. However, indicates that if some minimum tax proposal must be adopted, supports section 301 of H.R. 10612 as preferable to proposals which would (1) add the appreciation element in charitable gifts of appreciated property as a new tax preference subject to the minimum tax, (2) subject charitable contributions to a limit on tax preferences (LTP) rule, (3) subject charitable gifts to a minimum taxable income (MTI) rule or (4) subject charitable gifts to an allocation of deductions rule.

C. Individual Income Tax Reductions and Tax Rates

1. Extension of Income Tax Reductions

Honorable William E. Simon, Secretary of the Treasury (March 17)

Reiterates the proposal for a dollar-for-dollar reduction in taxes and expenditures. Recommends the following permanent income tax reduction program for individuals (calendar 1977 and beyond):

- (1) increase personal exemption from \$750 to \$1,000;
- (2) substitute a single standard deduction—\$2,500 for married couples filing jointly and \$1,800 for single taxpayers—for the existing low-income allowance and percentage standard deduction; and
- (3) reduce the tax rates in the lower brackets (with two middle brackets having an increase—see below).

For calendar year 1976, proposes the following tax cut for individuals (resulting in lower withholding tax rates effective July 1, 1976):

- (1) increase personal exemption to \$875;
- (2) allow a per capita tax credit of \$17.50, with an alternative tax credit of one percent of the first \$9,000 of taxable income (for a maximum credit of \$90 per person);
- (3) adjust the standard deduction—a low-income allowance of \$2,300 for joint returns and \$1,750 for singles, and a percentage standard deduction of 16 percent of AGI with a maximum of \$2,650 for joint returns and \$2,100 for singles;
- (4) reduce the tax rates as noted below; and
- (5) allow an earned income tax credit of 5 percent of earned income with a maximum of \$200 (phasing it out at \$8,000 of earned income or AGI, whichever is greater).

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges retention of the earned income credit, but expanded to include married couples with no children. If revenue constraints permit, asks consideration of extending the credit to single persons working on a substantially full-time basis.

National Association of Manufacturers, Roland M. Bixler (March 18)

Maintains that most tax cuts recently have favored low-income individuals while providing little relief to middle-income taxpayers. Believes that a reduction in *all* tax rates would be an equitable approach. Considers H.R. 10612 to be an improvement over the Tax Reduction Act of 1975 in providing some reduction to middle-income groups.

Honorable James L. Buckley, U.S. Senator, New York (March 19)

Proposes (in S. 2737) that the personal income tax be "indexed" to protect taxpayers from higher, graduated tax rates on incomes as inflation pushes their salary and wages to higher tax brackets. Suggests that this be in lieu of the Administration's tax reduction for individuals. S. 2737 would make yearly adjustments in the following individual income tax provisions (based upon the average consumer price index changes over the 1975 base year): (1) taxable income brackets, (2) standard deduction, and (3) personal exemptions.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Urges extension of the 10-percent refundable earned income credit, and proposes applying it also to low-income individuals without children.

Recommends extension of the individual income tax cuts in the Tax Reduction Act of 1975.

Business Roundtable, represented by Charles Walker (April 2)

Favors permanent extension of current individual tax cuts.

2. Individual Tax Rates

Honorable William E. Simon, Secretary of the Treasury (March 17)

Proposes the following change in individual income tax rates for 1976 and 1977 (and compared to existing tax rates):

[In percent]

Taxable income	Present rates	1976 rates	1977 rates
A. Tax rates for single taxpayers:			
\$0 to \$500.....	14	13.0	12
\$500 to \$1,000.....	15	14.0	13
\$1,000 to \$1,500.....	16	15.5	15
\$1,500 to \$2,000.....	17	16.0	15
\$2,000 to \$3,000.....	19	17.5	16
\$3,000 to \$4,000.....	19	18.0	17
\$4,000 to \$5,000.....	21	19.5	18
\$5,000 to \$6,000.....	21	20.0	19
\$6,000 to \$8,000.....	24	22.5	21
\$8,000 to \$10,000.....	25	24.5	24
\$10,000 plus (no change).			
B. Tax rates for joint returns:			
\$0 to \$1,000.....	14	13.0	12
\$1,000 to \$2,000.....	15	14.5	14
\$2,000 to \$3,000.....	16	15.5	15
\$3,000 to \$4,000.....	17	16.0	15
\$4,000 to \$6,000.....	19	17.5	16
\$6,000 to \$8,000.....	19	18.0	17
\$8,000 to \$10,000.....	22	21.5	21
\$10,000 to \$12,000.....	22	22.0	22
\$12,000 to \$16,000.....	25	25.0	25
\$16,000 to \$20,000.....	28	28.5	29
\$20,000 to \$24,000.....	32	33.0	34
\$24,000 plus (no change).			

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges repeal of the 50-percent maximum tax on earned income, as an unfair preferential rate to the upper one percent of taxpayers. Claims that the provision has apparently failed to achieve its original objective of reducing the use of tax shelters by high-salaried individuals. Estimates that repeal would raise revenue for fiscal 1977 of \$665 million.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Favors lower and less steeply graduated tax rates for individuals, with a maximum rate under 50 percent. Maintains that the current graduated tax rates make the Government the principal beneficiary from income increases.

National Association of Manufacturers, Roland M. Bisler (March 18)

Favors a reduction in all tax rates in comparison to the proposed extension of existing tax reduction provisions.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Contents that total income is the only valid base on which tax rates should be imposed, and that the 50-percent maximum rate on earned income is unjustified and should be repealed. Suggests that if high overall tax rates become a problem because of serious tax reform, the situation can be rectified through basic rate structure changes.

Also, urges removal of discriminatory tax rates on single persons and married couples where both work. Maintains that the 16th Amendment does not imply that income be taxed according to marital status but rather according to *income* "from whatever source derived."

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Believes that tax reductions for individuals should be made by an across-the-board rate reduction, or at least for the \$15,000-\$30,000 middle-income bracket taxpayers.

Tax Council, Paul Dillingham, Vice-President, Coca-Cola (April 2)

Proposes that everyone be taxed as an individual under the existing single-person rate schedule, with a 50-percent top rate on all income and a one-third reduction in other bracket rates.

D. Revision of Individual Income Tax Provisions

1. Alimony Deduction

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel; accompanied by Emmerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Recommend modifying section 502 of H.R. 10612 dealing with alimony payments as that section applies to charitable contributions by reducing the adjusted gross income base upon which the ceiling on deductibility of charitable gifts is measured. Suggests that for the sole purpose of computing the income tax charitable deduction, alimony be added back to adjusted gross income.

2. Child Care Credit or Deduction

Hon. William E. Simon, Secretary of the Treasury (March 17)

Considers the revenue loss under the House provision to be unjustified in terms of the benefits. Indicates that deduction should be available *only* to low- and moderate-income taxpayers where the economic situation is such that both spouses need to work. Supports the other revisions in the child care provision, such as elimination of the monthly limitation in favor of an annual limit and deletion of the current distinction between care outside and in the home.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Endorses the change of the child care deduction to a credit, which eliminates the "upside-down" effect of the benefit of the deduction. In addition, recommends that the credit be refundable so that working parents with no present tax liability can benefit.

3. Retirement Income Credit

Honorable William E. Simon, Secretary of the Treasury (March 17)

Maintains that the retirement income credit needs to be redesigned because it is overly complicated, outdated in terms of the maximum level of earnings, and discriminatory between sources of income for the elderly. Endorses the House provision which converts the credit to an age credit available to all taxpayers age 65 or over regardless of whether the income is retirement or earned income, increases the maximum base for the credit, and simplifies the credit. Suggests, also, that

the separate treatment of retirement income of public employees under age 65 should be eliminated.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports the simplification of the existing credit.

National Association of Retired Federal Employees, John M. McClelland, President (April 7)

Opposes the restructuring of retirement income credit under the House bill because the bill does not give equal treatment to Civil Service and social security benefits. Supports S. 2870 (introduced by Senator Montoya), which would exempt Civil Service pensions from income tax, in lieu of a retirement income credit for employees who retire under the Civil Service retirement plan. Indicates that exempt benefits could not exceed benefits under Social Security.

4. Sick Pay and Military Disability Payments

Honorable William E. Simon, Secretary of the Treasury (March 17)

States that the House provisions to limit the sick pay exclusion are a step in the right direction. However, believes that complete repeal is essential to simplification and equity as there is no justification for treating sick pay any differently than other wages.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports retention of the existing sick pay provision.

National Association of Retired Federal Employees, John F. McClelland, President (April 7)

Opposes the House bill provision on excludable sick pay. Advocates an increase in the maximum limitation on excludable sick pay. Maintains that the exclusion should be allowed to an individual until he attains the mandatory retirement age set by his last employer, and that the exclusion should not depend on adjusted gross income. Also, requests that the House bill's definition of disability not be applied to reclassify benefits in pay status at the time the new rules are adopted.

5. Moving Expenses

Chamber of Commerce of the U.S., Walker Winter (March 18)

Recommends reducing the mileage test to 20 miles, and increasing the maximum deduction sufficiently to reflect inflation. Feels that the actual expenses incurred could be allowed without an arbitrary limit, if the expenses are reasonable.

National Association of Manufacturers, Roland M. Bixler (March 18)

Considers the liberalization in the House bill to be a step in the right direction. Suggests allowance of all legitimate moving expenses without limit.

American Textile Manufacturers Institute, Inc., represented by John T. Higgins, Vice President, Burlington Industries (March 30)

Recommends elimination of reimbursed moving expenses as an item of gross income or, alternatively, (a) doubling the present dollar limitations, (b) reinstating the 20-mile rule, and (c) increasing the 30-day limit on temporary moving expenses to 60 days.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Supports the moving expense revisions in the House bill, but favors higher limitations and more types of deductible expenses.

Employee Relocation Council, T. A. Dobrozsi, President (April 7, 1976)

Believes that the increase from \$1,000 to \$1,500 for premove house-hunting and temporary living expenses at the new job location is adequate in the short-run. Recommends that the present overall ceiling of \$2,500 be increased to \$5,000. Also, suggests that the proposed \$1,500 and \$5,000 amounts be adjusted with a biannual cost-of-living adjustment. Requests that the mileage test be reduced to 20 miles.

As a long-range proposal, suggests (1) allowing a deduction for temporary living expenses for 60 days; (2) excluding from tax relocation allowances of Federal employees, and (3) excluding from gross income reimbursements for expenses which are deductible, provided employee furnishes adequate documentation to employer.

6. Itemized Deductions

Honorable William E. Simon, Secretary of the Treasury (March 17)

Recommends that the Treasury's 1973 "Miscellaneous Deduction Allowance" (MDA) be adopted (with the modification of not repealing the \$100 dividends exclusion as previously proposed), which would substitute an MDA of \$400 (\$200 for marrieds filing separately) for the following changes in itemized deductions: (1) repeal of deduction for State-local gasoline taxes; (2) a 5-percent floor on medical expenses and casualty losses; (3) repeal of the separate deduction for medical insurance premiums; (4) elimination of the separate one-percent medical expense floor for medicines and drugs (to be covered under the 5-percent floor but only for prescription drugs); and (5) a \$200 floor for employee business-related expense (e.g., union dues, work clothes and job-related educational and home office expenses) and other miscellaneous expenses related to producing income or preparation of tax returns. Maintains that the MDA would simplify record-keeping for taxpayers.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports retention of the existing casualty loss and medical expense provisions, including the deduction for medical insurance premiums. Opposes any proposed minimum floor on the charitable contributions deduction. Also, objects to any proposals to eliminate or abridge the deduction for nonbusiness State-local taxes, including gasoline taxes. Opposes any "miscellaneous deductions allowance" or restrictions on deductions and miscellaneous employee business expenses.

National Association of Retired Federal Employees, John F. McClelland, President (April 7)

Supports simplification of the deduction for medical and drug expenses. Recommends that medical and drug expenses be combined and be deductible subject to an overall 4-percent floor. Also, urges rein-

statement of a provision allowing deduction of medical and drug expenses of individuals age 65 and over, without regard to the floor.

Duke University, C. L. Haslim, for Terry Sanford, President (April 8)

Recommends preserving, or perhaps extending, tax deductions which encourage charitable giving.

Council on Foundations, Inc., Robert F. Goheen, Chairman (April 8)

Opposes any limitations on the deductibility of charitable contributions to private foundations as compared to other 501(c)(3) organizations as unjustified because the foundations have an excellent record of compliance with 1969 Act restrictions and because such limitations discourage charitable contributions.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Oppose placing a percent of adjusted gross income floor on the charitable deduction. Object to substituting a credit for the income tax charitable deduction.

Recommend increasing the adjusted gross income (contribution base) ceiling to 50 percent of adjusted gross income for all gifts to public charities. Also, propose extending the 5-year carryover for "excess" gifts to 10 years.

7. Other Individual Tax Provisions

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes repeal or reduction of the dividend exclusion for individuals. Suggests that it should be increased instead to help attract additional venture capital.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Recommends replacing the itemized deductions and standard deduction with a credit to eliminate the larger relative tax benefit to higher income taxpayers due to the graduated income tax rates. Indicates that a 25-percent credit in lieu of deductions would, according to Brookings estimates, result in a revenue gain of \$6 billion a year, and would substantially benefit low and middle-income taxpayers.

In addition, suggests replacing the \$750 personal exemption with a refundable tax credit of \$250 per person. Also, proposes repeal of the \$100 dividend exclusion.

National Rural Housing Coalition, Cushing S. Dolbeare, Executive Secretary (March 23)

Urges the committee to substitute tax credits for the present deductions allowed for mortgage interest and property taxes.

Charles Moeller, Jr., Senior Vice President and Economist, Metropolitan Life Insurance Company (April 1)

Recommends increasing the dividend exclusion and providing a similar exclusion for interest income.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Recommend that security transaction commissions be made deductible.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Proposes (in S. 2082) a tax credit in lieu of the deduction for interest paid on a mortgage on a taxpayers' principal residence. The credit would be equal to 45 percent of such mortgage interest, with a maximum of \$2,000 for a joint return (\$1,000 for a separate married return).

Also, recommends S. 2695, a bill to provide a nonrefundable tax credit of \$250 when the taxpayer houses a senior citizen (age 61 years or more) within their home.

In addition, proposes (in S. 2346) a tax credit for elderly individuals (age 65 or over) for the increase in property taxes paid with respect to a principal residence after reaching age 65 (in comparison to the previous year). For elderly renters, a credit would be allowed for a portion of the increase in rent paid after age 65.

E. Business-Related Individual Tax Provisions

1. Business Use of Home and Vacation Homes

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Endorses the House provisions as an appropriate correction of the problem.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Objects to the House provision limiting the available deduction for business use of the home.

National Association of Home Builders, John C. Hart, President (March 23)

Opposes limitations on deductions attributable to vacation homes.

Direct Selling Association, J. Robert Brouse, President (April 7, 1976)

Believes that the "exclusive use test" may not be met by most individuals involved in direct sales because their homes are not large enough such that specific space can be set aside for exclusive use.

Suggests the following amendment:

"Subsection (a) will not apply to any item to the extent such items are allocable to the space within the dwelling unit which is used on a regular basis in the conduct of:

"(A) the taxpayer's trade or business of selling goods or services, but only if the dwelling unit is the sole fixed location of such trade or business, or

"(B) the business of the taxpayer's employer, for which no other office or fixed location is provided by the employer."

American Hotel and Motel Association, Warner H. McLean (April 7)

Maintains that existing law and regulations are sufficient to prevent abuses.

2. Deduction for Conventions, Etc., Outside the United States

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Maintains that many foreign conventions become "tax deductible vacations," with the general taxpayer subsidizing those that can afford such trips. Considers the House provision to be an unsatisfactory solution to the problem. Believes that no deduction should be allowed for foreign conventions, etc., except for those conducted by organizations having a sufficient business reason holding the convention outside the U.S. (but in no event should a deduction be permitted for cruises).

Chamber of Commerce of the U.S., Walker Winter (March 18)

Objects to repeal of deductibility of expenses incurred in attending conventions outside the U.S. Feels that the IRS has sufficient authority under section 274 to control possible abuses. Asserts that such a change could bring retaliatory action by other countries as well as hurt the airlines and American-owned hotels in other countries.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Asserts that the House bill does not go far enough. Sees no reason for allowing any deduction for attending conventions, etc., outside the U.S. Maintains that they are generally excuses for professional people to take a "deductible vacation." Feels that low- and moderate-income taxpayers should not have to subsidize this travel for higher income persons.

Honorable Daniel K. Inouye, U.S. Senator, Hawaii (April 7)

Opposes the restrictions on deductions for conventions outside the U.S. Believes it would do substantial harm to the U.S. economy by encouraging retaliation from other countries. Maintains that abuses can be corrected by enforcing existing laws and regulations.

American Society of Travel Agents, Inc., Robert L. McMullen, President (April 7)

Opposes any legislation which would curtail deductions of reasonable expenses incurred by taxpayers attending legitimate business conventions held outside the United States.

American Hotel and Motel Association, Warner H. McLean (April 7)

Objects to House bill provisions pertaining to deductions for convention expenses.

Honorable Barry Goldwater, U.S. Senator, Arizona (April 9)

Opposes any provision in the tax reform bill which would restrict attendance by U.S. citizens at conventions and seminars abroad since it does nothing about possible abuses of convention-going in the United States and would injure tourism, a major industry in many foreign countries.

3. Qualified Stock Options

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes the House provision repealing the present rules for qualified stock options.

National Association of Manufacturers, Roland M. Bixler (March 18)

Objects to the proposed change in tax treatment of stock options.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Opposes the provisions of the House bill which would change the tax treatment of qualified stock options.

4. Other Items

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Proposes limiting the deduction for air transportation business costs to coach fare. (Reimbursements for the difference between first class and coach fares would be includible in income.) Estimates that this would produce a revenue gain of \$60 million for fiscal 1977, increasing to \$330 million by fiscal 1981.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Recommends that all deductions for air fare should be limited to the cost of coach fare (as in his bill, S. 1698).

F. Business Tax Changes and Capital Formation

1. Investment Tax Credit

Honorable William E. Simon, Secretary of the Treasury (March 17)

Recommends a permanent 10-percent investment credit generally (however, see also proposal for a higher credit for certain utilities).

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Indicates that the investment credit has been an effective tax tool in stimulating machinery and equipment purchases. Proposes, however, that the impact of the credit be directed to benefit net increases in investment by providing (1) an additional 5-percent credit beginning in 1977 for incremental investment above a 3-year average base period level (in addition to a basic, permanent 10-percent credit) and (2) making the 15-percent credit refundable beginning in 1978 to expand the benefit to businesses not having a tax liability (including new businesses) and to nonprofit organizations (other than for State-local governments or their instrumentalities). Also, recommends repealing the present rule that allows movie and TV films to qualify for the credit.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Favors a permanent credit of 12 percent for all businesses, to be applied as costs are incurred rather than waiting until the property is placed in service. Also, suggests removal of limitations based on tax liability.

National Association of Manufacturers, Roland M. Bialer (March 18)

Maintains that a permanent credit is needed. Supports making progress payments eligible for the credit, while questioning the need to phase in the provision. Suggests liberalizing or repealing the income limitation on the use of the credit. Proposes repeal of the lower credit for short-lived assets so that the full credit would be available without any adjustment to the depreciable basis.

American Institute of Certified Public Accountants (March 18)

Supports a permanent 10-percent investment tax credit. Supports the increase to \$100,000 in the maximum amount of used property qualifying for the credit.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Recommends repeal of the investment credit as an unfair tax expenditure, with consideration given to alternative ways of stimulating those portions of the economy in most need of assistance. Maintains that the investment credit primarily benefits those who would already be expanding plant and equipment in response to demand, and that the credit provides no assistance to the construction and housing industries or to businesses making no profit or having losses. Further, claims that the credit is biased against labor-intensive industries.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Favors making the 10-percent investment credit permanent.

Domestic Petroleum Council, T. Howard Rodgers, President (March 25)

Favors a 12-percent investment tax credit for intangible drilling costs and geological and geophysical costs related to exploration for oil and gas within the United States. Suggests that this investment credit should also apply to secondary and tertiary recovery costs.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Co., U.S.A. (March 25)

Supports making the 10-percent investment tax credit permanent.

Independent Petroleum Association of America, A. V. Jones, Jr., President (March 25)

Urges adoption of an exploration and development investment tax credit to encourage drilling of new oil and gas wells.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee (March 26)

Recommends a permanent 12-percent investment credit, with a full credit for equipment subject to rapid amortization.

Manufacturing Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Proposes that the 10-percent investment credit be permanent.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Recommends that the present temporary 10-percent investment credit rate be increased to 12 percent and be made permanent. Also, suggests allowing the investment credit for amortizable pollution control facilities.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Requests that the investment credit be increased to 12 percent on a permanent basis, or at least that the current 10-percent credit be extended to 1980.

In addition, recommends enactment of a 15- to 20-percent investment credit (or a new and expanded rapid amortization provision) for capital expenditures required by Federal pollution control and occupational safety laws.

Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President (March 30)

Urges an increase in the investment tax credit to 12 percent, and elimination of the tax liability limitations in applying the investment credit.

National Machine Tool Builders' Association, J. B. Perkins, President (March 30)

Recommends that the investment credit be made permanent and the rate increased to 15 percent.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Proposes the adoption of a permanent 12-percent investment tax credit which (a) is applied to expenditures as they are made, (b) does not provide for a reduction in the basis for depreciation, and (c) would be fully applicable to all property subject to capital recovery. In addition, requests that the investment tax credit be made applicable to direct foreign investments in machinery and equipment by U.S. taxpayers.

The American Paper Institute, Inc., Norma Pace, Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Request a permanent increase in the investment tax credit to 12 percent, with the extension of the credit to industrial buildings and the elimination of the maximum limit on the use of the credit. Also, suggest doubling the credit for qualified pollution control facilities.

American Machine Tool Distributors' Association, Robert W. Schoeffler, President (March 30)

Believes that the investment tax credit should be continued and made permanent, with an increase in the rate to 15 percent.

Air Transport Association of America, Paul R. Ignatius, President (March 31)

Suggests altering the investment tax credit to provide that earned but unused and expiring credits be treated as refundable overpay-

ments of tax. Indicates that this additional feature would benefit highly cyclical industries such as the airline industry.

C. V. Wood, President of McCulloch Oil Corp. and Chairman of the Committee of Publicly Owned Companies (March 31)

Favors a permanent increase in the investment tax credit.

James R. Barker, Chairman of the Board of the Moore-McCormack Resources, Inc., on behalf of the American Institute of Merchant Shipping (March 31)

Urges an amendment to clarify that the investment tax credit is available for vessels purchased with Capital Construction Fund withdrawals. Asserts that it was never intended that the Capital Construction Fund be in lieu of the investment credit. States that earlier in this Congress, the Senate passed maritime legislation (S. 1542) which would have amended the Capital Construction Fund provisions in the Merchant Marine Act to allow the investment credit; however, because of the jurisdictional question in the House, the matter was deleted in conference.

Ernest S. Christian, Jr., on behalf of the American Maritime Association (March 31)

Advocates an amendment to the Internal Revenue Code to remove all doubts that ships constructed with Capital Construction Funds, as provided in the Merchant Marine Act of 1970, qualify for the investment tax credit. Maintains that such ships are now, as a practical matter, excluded from the investment credit as a result of an interpretation by the Internal Revenue Service which is both incorrect and contrary to the intent of Congress.

Robert M. Dreves, Chairman of the Board, Peoples Gas Co., on behalf of the American Gas Association (March 31)

Proposes increasing the investment tax credit to 12 percent on a permanent basis, and providing a concurrent investment credit on construction work in progress.

American Telephone and Telegraph Co., Robert N. Flint, Vice President and Comptroller (April 1)

Recommends that the investment tax credit be permanently extended after 1976 at a rate of at least 10 percent.

National Coal Association, E. B. Leisenring, Jr., Chairman of the Tax Committee (April 1)

Asks that the investment tax credit be made permanent at an increased rate of 12 percent.

U.S. Independent Telephone Association, John J. Douglas, Executive Vice President—Finance (April 1)

Argues that the investment tax credit should be permanently increased to 12 percent for all businesses, thereby equalizing the rate for utilities and other industries, and that its limitation to 50 percent of tax liability should be eliminated.

Charles Moeller, Jr., Senior Vice-President and Economist, Metropolitan Life Insurance Co. (April 1)

Proposes a permanent 12-percent investment credit.

Norman Ture, President, Norman Ture, Inc. (April 2)

Favors a permanent increase in the rate of the credit and changes to make it available to all classes of property and taxpayers.

Business Roundtable, represented by Charles Walker (April 2)

Urges a permanent 12-percent credit and that the credit be made refundable. Also, wants speedup of 5-year phasein of the provision in the Tax Reduction Act of 1975 that permits the investment credit on progress payments.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Proposes liberalization of investment credit on a permanent basis and making it fully applicable to all types of investments.

Ad Hoc Committee for an Effective Investment Tax Credit, represented by George Strichman, Chairman, Colt Industries (April 2)

Recommends a permanent 12-percent credit, offset of 100 percent of tax by the credit (perhaps limited to \$150,000), and liberalization of investment credit carryover period to 10 years with use of carry-forwards before present-year credit. Proposes full credit for structures and equipment with lives greater than 3 years. Also, wants speedup of phasein of progress payment provision and an annual, rather than a permanent election.

Associated General Contractors of America, represented by Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Proposes permanent 12-percent, refundable investment credit, and extension of the credit to industrial buildings.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President, and James W. Walker, Jr., Executive Vice President (April 5)

Support House bill investment credit changes.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Company (April 5)

Recommends a permanent extension of the investment credit at 12 percent.

American Hotel and Motel Asociation, Warner H. McLean (April 7)

Suggests expanding the property which qualifies for the investment tax credit to a portion of hotel real property such as steel or labor included in the building, or a percentage of the total cost of the building.

United States League of Savings Asociations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Suggests repeal of the provisions of section 46(e) of the code which reduce investment tax credit for savings and loan associations to one-half the credit allowed other taxpayers.

National Savings and Loan League, Gilbert Roessner, past President (April 7)

Supports extension of increase in investment tax credit. Suggests that savings and loan associations should be allowed a full investment

tax credit rather than the one-half credit provided for them under present law.

2. Depreciation (Cost Recovery) Allowances

Honorable William E. Simon, Secretary of the Treasury (March 17)

Proposes a more rapid depreciation allowance (cost recovery) for businesses which construct new plants or expand existing facilities (or for the purchase of equipment for such use) in areas where the unemployment rate exceeds 7 percent. The proposal is for a limited period to stimulate the economic recovery in areas with higher unemployment: qualified investment projects must begin during the year beginning January 19, 1976, and must be completed and placed in service within 36 months. A qualifying location is to be in accordance with the Labor Department's definition of "Labor Market Areas" (LMAs), with areas outside defined LMAs in a state consolidated to determine if they have a 7-percent unemployment rate.

With respect to real estate, the depreciation period would be one-half of the shortest life now allowable (but it would not apply to facilities for lodging, governmental buildings or certain tax-exempt organizations, nor for residential buildings). For equipment, the taxpayer would be allowed to elect 5-year amortization commencing the date of placement in service (and also would be allowed the full investment credit if the useful life is 7 years or more). This proposal would not apply to those electric utilities covered by the Administration's six-point utility tax program. (Estimates that the revenue cost would be \$300 million for fiscal 1977, \$650 million for fiscal 1978, \$900 million for fiscal 1979, and \$1 billion for fiscal 1980. States that the same amount of taxes will be paid because acceleration of depreciation allowances generally only defers taxes.)

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

In order to provide the revenue for proposed expansion of the investment tax credit, recommends that the ADR system be repealed as a less efficient means of stimulating investment.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports the full retention of the ADR system, and urges that it be liberalized by shortening the period for computing depreciation. Prefers a "full capital cost recovery allowance" system as discussed in the 1970 "Task Force on Business Taxation." In the meantime, suggests a 40-percent ADR rather than the current 20-percent variance.

Opposes provisions in House bill which limit depreciation in excess of straight line (including for property located outside the U.S.). Supports the extension of the 5-year amortization provisions in current law. Recommends a shorter amortization for pollution control facilities.

National Association of Manufacturers, Roland M. Bixler (March 18)

Urges enactment of a "capital cost recovery system" (as in H.R. 7543), to provide a 5-year write-off for machinery and equipment and a 10-year write-off for industrial buildings. Claims that initial revenue losses would be offset from tax revenues from increased economic

activity. Recommends a full, immediate write-off for "governmentally-mandated" pollution control facilities.

Questions wisdom and practicality of the President's proposal to allow faster cost recovery in high unemployment areas.

Honorable James L. Buckley, U.S. Senator, New York (March 19)

Proposes that the concept of "indexing" be adopted for depreciation to reflect current replacement costs of capital assets.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Indicates that the Asset Depreciation Range (ADR) System has less merit even than the investment credit. Maintains that ADR constitutes a tax subsidy, as it allows asset lives much shorter than industry averages.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Recommends adoption of an optional "capital cost recovery" system to permit full recovery of the costs of machinery and equipment in 5 years and the costs of industrial buildings in 10 years (while retaining the accelerated methods for these periods and the full investment credit). Further, proposes that capital recovery begin as costs are incurred rather than when property is placed in service.

Also, proposes that the entire cost of "government-mandated" pollution control facilities be depreciated over any period the taxpayer chooses, including immediate write-off.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Urges enactment as part of the Internal Revenue Code presumptive, realistic useful lives for depreciation of real property. Feels that the rapid amortization provision for rehabilitation of low-income housing should be continued.

National Apartment Association, Don Lawrence, President (March 23)

Recommends that the effective date of the provisions which would provide for total recapture of accelerated depreciation be prospective only.

Supports the provision in the House bill which extends a special five-year amortization for expenditures to rehabilitate low-income housing. However, recommends that this provision be extended for five years instead of two years as in the House bill. Favors increasing the amount of rehabilitation expenditures eligible for this treatment from \$15,000 to \$20,000.

National Housing Partnership, Sidney Friedberg, Executive Vice President (March 23)

Urges that the effective date for the changes made by the House bill in the depreciation rules with respect to low- and moderate-income housing be made prospective only.

National Housing Rehabilitation Association, A. Carleton Dukes (March 23)

Supports extension of the special 60-month amortization rule for a period of at least five years. Asks that the amount of

rehabilitation expenditures eligible for this treatment be increased from \$15,000 to \$20,000. Asks that the committee clarify the present regulations which apply the \$15,000 amount on a "per dwelling unit" basis. Recommends that the Secretary of the Treasury be given authority to set low income limits consistent with those established for the Section 8 Leased Housing Program. States that it should be made clear that rehabilitation expenditures incurred pursuant to a binding contract entered into prior to January 1, 1981, and rehabilitation expenditures incurred with respect to low-income rental housing the rehabilitation of which has begun prior to January 1, 1981, will be deemed incurred prior to January 1, 1981.

National Association of Home Builders, John C. Hart, President (March 23)

Urges extension of 5-year amortization of low-income housing rehabilitation expenditures. Supports increase in rehabilitation expenditures eligible for rapid amortization from \$15,000 to \$20,000. Suggests that the provision be amended to apply if substantially all units are held for occupancy by families eligible for subsidies under section 8 of the Housing Act of 1937.

Opposes changes in the depreciation recapture rules for real property.

Ad Hoc Coalition for Low and Moderate Income Housing, George Brady (March 23)

Recommends a five-year extension for rapid depreciation for rehabilitation expenditure for low-income rental housing. Supports an increase in the ceiling for rehabilitation expenditures eligible for rapid depreciation from \$15,000 to \$20,000. Also recommends the adoption of authority for the Secretary of the Treasury to set income limits consistent with section 8 of the Leased Housing Program for purposes of qualifying for rapid depreciation of rehabilitation expenditures.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Co., U.S.A. (March 25)

Supports the following: (1) more rapid depreciation provisions; (2) adjustment of the cost bases for depreciation through price indexing or replacement cost accounting; and (3) extension of accelerated depreciation provisions to depletable assets.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee (March 26)

Urges a more flexible capital cost recovery system in general. Also, proposes changes in the amortization provision for pollution control facilities—such as permitting accelerated depreciation methods over the 5-year period, allowing pre-1969 plants to qualify for the more rapid amortization provision, removing the requirement for Federal or State certification, extending the date for placing the facilities in service beyond January 1, 1976.

Manufacturing Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

States that additional cost recovery allowances are needed.

*American Textile Manufacturers Institute, Inc., John T. Higgins
(March 30)*

Feels that the cost recovery period for new machinery and equipment should be no more than five years. Urges that accelerated depreciation methods be reinstated for factory buildings and that the cost recovery period applicable to the new industrial facilities should be reduced to 20 years.

With respect to pollution control facilities, recommends reducing the amortization period from 5 years to 3 years. In addition, proposes elimination of (a) the 15-year rule for determining the amortizable base and (b) the disqualifying feature which discourages modernization or expansion of plants in operation prior to 1969.

*Machinery and Allied Products Institute, Charles W. Stewart, President
(March 30)*

Believes that capital cost recovery systems divorced from useful lives should be carefully considered.

*Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President
(March 30)*

Endorses the National Association of Manufacturers' proposal for an optional 5-year depreciation period for machinery and a 10-year period for plants. Also, urges adoption of an optional 1-year writeoff period for pollution control and other Government-mandated capital investments.

*American Iron & Steel Institute, Frederick G. Jaicks, Chairman
(March 30)*

Recommends that capital recovery periods of at least as short as those allowable for comparable domestic investment be allowed to U.S. taxpayers operating abroad.

*National Machine Tool Builders' Association, J. B. Perkins, President
(March 30)*

Requests that the present accelerated methods of depreciation be retained, but with a continued ADR system in a greatly simplified form with an increase in the 20-percent optional variation in guideline lives to the 40-percent variation proposed in 1970 by the President's Task Force on Business Taxation.

Suggests that the Congress study the advisability of adopting a standardized capital recovery allowance system to make the United States competitive with other industrial nations, and suggests maximum capital recovery periods of 5 to 7 years for machinery and equipment and 20 to 25 years for buildings.

Proposes that the present \$10,000 ceiling on allowable investment for purposes of additional first-year depreciation be increased to \$100,000.

In addition, recommends a 1-year writeoff for equipment purchased by businesses to comply with pollution control and occupational safety laws.

*American Iron & Steel Institute, Frederick G. Jaicks, Chairman
(March 30)*

Favors the adoption of a simplified and flexible capital recovery system which would permit the cost of all productive industrial

investment, including industrial buildings, to be recovered over a period as short as 5 years, utilizing present accelerated depreciation methods and providing an election to the taxpayer as to the timing of the deduction. Proposes that the deduction be allowed as capital funds are expended rather than delayed until the project is placed in service.

Also, urges adoption of legislation which would clarify the definition of pollution control facilities and permit the immediate deduction of the cost of all pollution control facilities.

The American Paper Institute, Inc., Norma Pace, Senior Vice President and Neil Wissing, Chairman of the API Tax Committee (March 30)

Recommend the adoption of a system of flexible, optional cost recovery deductions independent of any rigid allowances based on useful life. Suggest, at the very least, the adoption of a capital recovery allowance system along with the lines outlined in H.R. 7543, which would permit machinery and equipment in pollution control facilities to be written off over a 5-year period and buildings over a 10-year period, with taxpayers permitted to elect deductions of zero percent to the maximum allowed for any year as costs are incurred (unused deductions would be carried forward indefinitely).

Also, propose 5-year amortization for all qualified pollution control facilities, with adoption of an appropriate legislative definition of such facilities.

American Machine Tool Distributors' Association, Robert W. Schoeffler, President (March 30)

Urges that the accelerated depreciation methods provided in section 167(b) be continued. Feels that the Asset Depreciation Range (ADR) system should be continued and liberalized by increasing the 20-percent optional variation to 40 percent as recommended in 1970 by the President's Task Force on Business Taxation. Also favors the adoption of a system of capital recovery allowances along the lines of those provided in H.R. 8226. Suggests that the allowances be set at five years for machinery and equipment and 15 to 20 years for buildings. Believes that the additional first year depreciation provided in section 179 should be continued with an increase in the \$10,000 ceiling to \$100,000.

American Gas Association, represented by Robert M. Dreves, Chairman of the Board, Peoples Gas Co. (March 31)

Suggests enactment of faster depreciation, as well as immediate depreciation of work in progress.

Edison Electric Institute, represented by James J. O'Connor, Executive Vice-President of Commonwealth Edison Co. of Illinois (April 1)

Favors additional changes affecting pollution control facilities by allowing amortization of such costs in new as well as old plants, but requiring "normalization" of the tax deferral.

National Coal Association, E. B. Leisenring, Jr., Chairman of the Tax Committee (April 1)

Proposes that the accelerated depreciation (ADR) allowances be increased to at least twice the rate allowed currently.

Charles Moeller, Jr., Senior Vice President, Metropolitan Life Insurance Co. (April 1)

Suggests shorter depreciable lives of assets, and also accelerated depreciation on capital spending for pollution control, worker safety, energy exploration and development and conservation.

Norman True, President, Norman True, Inc. (April 2)

Recommends shortening of lives used for depreciation of plant and equipment.

Business Roundtable, represented by Charls Walker (April 2)

Urges study of replacement cost depreciation as a substitute for historical cost depreciation, liberalization of ADR (increasing the permitted variance from 20 percent to 40 percent), immediate writeoff of pollution control facilities, and shorter tax lives for industrial buildings. Proposes beginning depreciation when capital expenditures are incurred, not when property is placed in service, and neglecting salvage value in computing depreciation.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Recommends shortening of tax lives used in computing depreciation and the immediate writeoff of pollution control facilities.

Ad Hoc Committee for an Effective Investment Credit, represented by George Strichman, Chairman, Colt Industries (April 2)

Proposes 40-percent variance for ADR and immediate writeoff for pollution control facilities. Urges full-year, not half-year convention for first-year depreciation. Supports administration proposal for rapid depreciation in high unemployment areas, but modified to apply for three years. In the long-run, wants a five-year writeoff for equipment and a ten-year writeoff for buildings. Also, suggests neglecting salvage values in computing depreciation, as well as an option for taxpayers to defer depreciation deductions indefinitely.

Associated General Contractors of America, represented by Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Suggests 40-percent variance for ADR, as well as immediate writeoff and higher investment credit for pollution control facilities.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President, and James W. Walker, Jr., Executive Vice President (April 5)

Recommends the adoption of more rapid depreciation to offset inflation.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Company (April 5)

Urges the liberalization of depreciation and amortization allowances.

American Hotel and Motel Association, Warner H. McLean (April 7)

Argues that it is imperative that shorter lives be permitted for depreciation tax purposes.

H. Lawrence Fox and Ernest G. Wilson, Attorneys, Washington, D.C.
(April 9)

Urge consideration of additional incentives for costs of pollution control facilities, such as a higher investment credit and/or faster amortization period than the 60 months presently allowed.

3. Corporate Tax Rates

Honorable William E. Simon, Secretary of the Treasury (March 17)

Recommends reducing the top corporate tax rate from 48 percent to 47 percent in 1976 and to 46 percent in 1977 and thereafter. Also, proposes that the current temporary tax cuts on the first \$50,000 of taxable income be made permanent (20 percent on the first \$25,000 of taxable income and 22 percent on the second \$25,000). Asserts that until integration of the corporate and personal income taxes can be effected, this rate reduction should cause beneficial increases in the rate of capital formation.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Endorses the 2-year extension of the tax rate reduction for small corporations. Opposes, however, any overall reduction in the corporate rate—such as to 46 percent proposed by the Treasury.

Chamber of Commerce of the U.S., Walter Winter (March 18)

Favors a reduction in the corporate tax rate to help provide needed new capital. Urges an increase in the surtax exemption to \$100,000, with a 20-percent rate applicable to the full \$100,000.

National Association of Manufacturers, Roland M. Bixler (March 18)

Supports making the \$50,000 surtax exemption permanent, with consideration given to increasing it to \$100,000 (as in S. 949). Suggests a 20-percent tax rate on the amount eligible for the surtax exemption.

American Institute of Certified Public Accountants (March 18)

Endorses extension of the 1975-76 corporate tax rate reductions.

Honorable James L. Buckley, U.S. Senator, New York (March 19)

Proposes (in S. 2737) that the corporate surtax exemption level be "indexed" to reflect inflation.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Supports making permanent the present 20 and 22-percent tax rates on the first and second \$25,000 of corporate income. Also, favors lowering the overall corporate income tax rate as soon as practicable (but with priority given to other capital formation proposals).

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Co., U.S.A. (March 25)

Favors a reduction in the corporate income tax rates.

Manufacturing Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Recommends that the corporate income tax rate be reduced.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Believes that reductions in the 48-percent corporate income tax rate should be undertaken when budgetary considerations permit.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Feels that the corporate tax rate should be reduced.

The American Paper Institute, Inc., Norma Pace, Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Recommend that the corporate income tax rate be reduced from 48 percent to 46 percent, along with a permanent \$50,000 surtax exemption and the continuation beyond 1977 of the normal tax rate of 20 percent on the first \$25,000 of taxable income and 22 percent on the next \$25,000.

American Machine Tool Distributors' Association, Robert W. Schoeffler, President (March 30)

Proposes that the surtax exemption be increased to \$100,000 and made permanent, and that the 20-percent tax rate on the initial \$25,000 of taxable income be made permanent.

Charles Moeller, Jr., Senior Vice President, Metropolitan Life Insurance Co. (April 1)

Recommends lowering corporate tax rates.

Norman Ture (April 2)

Suggests that the corporate income tax should eventually be eliminated and that, as a first step, normal and surtax rates should be reduced.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Proposes phased reduction in the corporate tax rate to 40 percent.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Supports a permanent increase in the corporate surtax exemption to \$50,000.

4. Corporate Tax Integration

Honorable William E. Simon, Secretary of the Treasury (March 17)

Contents that the double taxation of corporate earnings (as earned and as dividends to shareholders) reduces the rate of return for all savers, penalizes savings, and induces greater reliance on debt financing due to the nondeductibility of dividends paid.

Proposes allowing a dividend deduction to corporations of ultimately about one-half of dividends paid, along with a stockholder

tax credit. The credit would work by having the individual taxpayer "gross-up" his dividend (adding to taxable income an amount equal to 50 percent of the dividend and then taking a tax credit equal to the gross-up). Suggests phasing-in the integration over a 5-year period, beginning January 1, 1978, to stretch out the revenue loss.

Argues that general reductions in the corporate tax rates are not an adequate alternative to integration because of the continued bias against equity financing and in favor of corporations retaining their earnings. Maintains that integration of the corporate tax would greatly increase the overall efficiency of capital markets and make the equity financing market more competitive.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Contends that the Administration's proposal will not result in formation of additional capital but rather will produce only tax reductions for upper income shareholders. Indicates that the cost of this proposal would be greater than for full integration.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Urges removal of double taxation of corporate income as unfair and discriminatory against equity financing.

National Association of Manufacturers, Roland M. Bixler (March 18)

Favors a deduction for dividends paid by corporations as a solution to the double taxation of corporate income. Suggests a phasing-in of the deduction, starting at 25 percent until reaching 100 percent.

American Institute of Certified Public Accountants (March 18)

Considers the current method of taxing corporate earnings at the corporate level and at the stockholder level to constitute double taxation and a bias against equity investment. Suggests that consideration be given to integrating the corporate and individual income taxes either by permitting corporations to deduct dividends paid or by allowing a tax credit to the shareholder.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Believes that corporate income is doubled taxed, and proposes that this be eliminated by permitting a deduction to the corporation for dividends paid to stockholders. Maintains that this will help capital formation and remove a tax discrimination against equity financing. Prefers the deduction-of-dividends approach because of administrative simplicity and because it maintains horizontal equity between taxpayers with equal amounts of income.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Co., U.S.A. (March 25)

Supports measures to eliminate the double taxation of corporate earnings.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee (March 26)

Recommends integration of corporate and individual income tax structures.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Proposes that corporate shareholders be allowed a tax credit relating to the corporate tax on earnings distributed as dividends to them or, in the alternative, that the corporation be permitted deductions for dividend payments.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Favors elimination of the existing double taxation of dividends.

Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President (March 30)

Endorses the Administration's proposal to phase out the double taxation of corporate dividends.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Proposes that a deduction to the corporation be allowed for dividends paid or that a lower income tax rate be provided for corporations on the income distributed as dividends by the corporation.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Recommends the elimination of double taxation of dividend income.

National Advisory Committee on the National Dividend Plan, Martin R. Gainsbrough, Economic Consultant to the National Dividend Foundation (March 30)

Proposes the adoption of the National Dividend Plan. Under the plan, all Federal corporate income taxes would be rechanneled from the public sector to the private sector, in quarterly payments to each registered voter in the last national election. The existing double taxation on corporate dividends would be eliminated at the personal level. A ceiling would be imposed on Federal expenditures, except for an inflation adjustment. Suggests that the National Dividend Plan be phased in over a 5-year period to avoid impairing the essential functions of the Federal Government.

C. V. Wood, President of McCulloch Oil Corp. and Chairman of the Committee of Publicly Owned Companies (March 31)

Recommends deductability of dividend payments on common and preferred stock.

Edison Electric Institute, represented by James J. O'Connor, Executive Vice-President of Commonwealth Edison Co. of Illinois (April 1)

Supports integration of individual and corporation income taxes.

Norman Ture (April 2)

Urges elimination of the double tax on dividends.

Business Roundtable, represented by Charles Walker (April 2)

Proposes allowing corporations to deduct 25 percent of dividends paid.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Recommends ending double taxation of dividends through the withholding approach and elimination of tax on intercorporate dividends.

Associated General Contractors of America, represented by Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Urges corporate tax integration, or alternatively increasing the dividend exclusion and enacting an interest exclusion.

James J. Needham, Chairman of the Board, the New York Stock Exchange (April 5)

Endorses the Treasury integration proposal.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Company (April 5)

Suggests that dividend payments be deductible as are interest payments by a corporation.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President, and James W. Walker, Jr., Executive Vice President (April 5)

Recommend a "gross up" for corporate tax paid in computing the individual tax on dividends received or, less desirable, an increase in the dividend exclusion from \$100 to \$500.

5. Stock Ownership Tax Incentives (BSOP, ESOP)

Honorable William E. Simon, Secretary of the Treasury (March 17)

Urges adoption of the President's "Broadened Stock Ownership Plan" (BSOP) in order to encourage greater stock ownership. Contributions to a BSOP would be deductible by individuals, subject to annual deduction and salary limitations: \$1,500 per year or 15 percent of compensation, if less, and subject to a phaseout for compensation between \$20,000 and \$40,000. Income earned by a BSOP would be exempt from income taxation until withdrawn, but with a holding period of 7 years. The contributions to a BSOP would have to be invested in common stocks of the individual's choice (including mutual funds). In addition, allowable deductions to a BSOP would have no bearing on participation in any pension or profit-sharing plan, a self-employed plan, or an individual retirement account (IRA).

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Recommends rejection of proposed deduction for stock purchases as inequitable and an inappropriate intrusion in individual investment decisions.

National Association of Manufacturers, Roland M. Bisler (March 18)

Favors approaching BSOP programs as a separate issue rather than linking it to another tax issue, such as the investment credit. Indi-

cates that the expected limitations under the President's BSOP proposal on high-income taxpayers suggest that it may not be a potent encouragement to capital formation.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Believes that the President's proposal for "Broadened Stock Ownership Plans (BSOP)" will be helpful to capital formation. Suggests, however, that the proposal be extended to savings and investment generally and not be limited to common stock investments.

C. V. Wood, President of McCulloch Oil Corp. and Chairman of the Committee of Publicly Owned Companies (March 31)

Urges further incentives for employee stock ownership plans and adoption of provisions of the "Investment Incentives Act of 1976."

Louis O. Kelso, Managing Director and Chief Economist, Kelso, Bangert & Co. (March 31)

Advocates that it should be made national policy to pursue the goal of broadened capital ownership by U.S. citizens. Suggests that Congress should request from the administration a quadrennial report on the ownership of wealth in this country to assist in evaluating how successfully the base of wealth is being broadened over time.

Recommends the following change in the House tax reform bill:

(1) Make permanent the percentage of investment credit permissible under the Tax Reduction Act of 1975 (11 percent of eligible investment, if an amount equal to the extra 1 percent is placed in an ESOP).

(2) Six percent of the 11-percent investment credit be made available only on an optional basis, provided the corporation issues new common equity stock equal in value to the amount of the 6-percent credit optionally taken and transfers that stock to its ESOP.

(3) Newly issued capital stock transferred to an ESOP trust be valued at fair market value or, if higher, at book value at the time the credit is claimed.

(4) The provision under the Tax Reduction Act of 1975 which requires a pass-through of the voting on stock transferred to an ESOP to comply with the investment tax law be eliminated.

(5) Any corporation electing to take an investment tax credit of not more than \$100,000 be entitled to the full 11-percent credit free of the requirement to establish an ESOP and to capitalize that part of the credit in excess of 5 percent of the eligible investment.

(6) Dividends payable by a taxpayer corporation into an ESOP be made deductible from corporate income tax, provided that the dividends so paid are in turn paid currently by the ESOP trust directly to the employees into whose accounts the stock has been allocated.

(7) As under the Tax Reduction Act of 1975, there should be immediate vesting of the investment credit stock in the ESOP but it should not be physically distributed to employees until after 7 years.

Additionally, urges the following tax changes:

(1) Adoption of H.R. 462, the "Accelerated Capital Formation Act of 1975."

(2) Removal of the present statutory limitations on payments into an ESOP trust (25 percent of covered payroll less forfeitures) by an employer, and the substitution of a limitation based upon debt servicing requirements of the ESOP trust.

(3) Allowing tax deductions under the personal income, estate and gift tax provisions for contributions to an ESOP trust similar to contributions to charitable foundations.

(4) Permitting tax deductions under the corporate income tax for corporate dividends which are distributed through the ESOP trust as second income to employees or which are applied to repay funds borrowed by the ESOP trust to purchase their stock.

(5) Establishing a cut-off of further contributions on behalf of any employee covered by an ESOP when the value of the assets that employee has acquired during his working lifetime through one or more ESOP's exceeds \$500,000.

(6) Allowing for distributions from an ESOP of a diversified portfolio (including employer stock) and eliminating taxation on the assets distributed to the extent that the income-producing assets are held by the recipient or, if sold, the proceeds are promptly reinvested in other income-producing investments.

(7) Establishing a procedure for advance IRS opinions regarding ESOP financed transaction—i.e., a “no action” procedure similar to that used by the SEC and the Federal Trade Commission in order to avoid the “taxpayer ambush” that is inherent in present procedures.

(8) Exempting payments to an ESOP made for financing purposes from treatment as a conventional employee benefit for purposes of any wage, salary, deferred compensation, or other employee benefit control or guidelines that might be established under executive order, regulations or future economic stabilization laws at the Federal and State levels.

(9) Amending the Employee Retirement Income Security Act of 1974 to eliminate any doubt that may exist that an ESOP in acquiring or holding qualifying employer securities or incurring acquisition indebtedness for the purchase of ESOP securities does satisfy the provisions of ERISA. Also, the same standards of prudence in fiduciary responsibility must be applicable as those which must be observed by a corporate management with respect to nonemployee shareholders.

(10) Adopting legislation to define more precisely an Employee Stock Ownership Plan. This legislation which would amend the relevant Internal Revenue Code sections would clarify the purpose and nature of an “employee stock ownership plan” as a financing device and as an instrument for building ownership of qualifying securities by employees. It would also give the Secretary of the Treasury or his delegate the power to prescribe regulations further defining ESOP's.

American Telephone & Telegraph Co., Robert N. Flint, Vice President and Comptroller (April 1)

Suggests that the employee stock ownership tax provisions be amended to provide:

(1) a compensating reduction in the amount contributed to an ESOP (employee stock ownership plan) could be made by an employer from whom a portion of the 1-percent tax credit funding the plan is recaptured under section 47 of the Code;

(2) a compensating adjustment in the amount contributed to an ESOP when the IRS disallows the investment tax credit claimed by the employer;

(3) that expenses of managing the 1-percent ESOP tax credit may be charged to the employee stock trust (rather than be borne by the employer);

(4) a change in the current definition of "employer securities" (common stock of a corporation in direct control of 80 percent of the stock of the employer) in order to allow second and lower tier subsidiaries to participate in the investment credit ESOP; and

(5) in an amendment that would affect only utility companies—a change to prevent regulatory commissions from requiring that the 1-percent ESOP investment tax credit be passed on to customers in reduced rates.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Favors the Administration's ESOP and BSOP proposals, but suggests individuals earning \$25,000 or less should be eligible for the full benefits rather than the \$20,000 limit proposed by the Treasury. Proposes that a provision should be included in the plans to permit an individual to withdraw funds as can be done under the Individual Retirement Act in case of hardships, etc. Indicates that the proposals should permit the sale of stock before the end of the 7-year holding period if it is reinvested in another stock.

6. Tax Treatment of Oil and Gas and Other Depletable Minerals

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Maintains that oil and gas operations no longer need major Federal tax subsidies because of the continuing high price levels. Recommends (1) capitalization of intangible drilling and development costs, (2) recapture of the tax benefits where property subject to the intangible deduction is sold at a gain, and (3) phasing-out the 2,000-barrel exemption for percentage depletion.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Maintains that adequate depletion allowances are necessary to encourage development of oil and gas and other minerals. Opposes changes in treatment of intangible drilling and development costs.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Urges complete repeal of percentage depletion for oil and gas as an expensive and inequitable tax expenditure.

Domestic Petroleum Council T. Howard Rodgers, President (March 25)

Favors 12-percent credit for intangible drilling costs and for geological and geophysical costs related to exploration for oil and gas within the U.S. (with application also to secondary and tertiary recovery costs.

Independent Petroleum Association of America, A. V. Jones, Jr., President (March 25)

Proposes the following revisions to the percentage depletion provisions of the Tax Reduction Act of 1975:

(1) The "retailer's excluded" provision in the exemption for independent producers be coupled with the "small refiner exclusion."

(2) Revise the "transfer of property" provision to eliminate ambiguities and to make it clear this does not extend to a nominal transfer of title which does not relate to an actual change in the beneficial ownership of property.

(3) Revise the provision which limits percentage depletion to 65 percent of taxable income—specifically, that the method by which taxable income is determined be revised to take into account dry-hole costs.

(4) Establish a moratorium—at least for the duration of price controls—on the present annual reductions in the number of barrels of crude oil eligible for percentage depletion.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Recommends that percentage depletion be retained without geographical restriction at least at the same levels existing prior to the Tax Reform Act of 1969, and urges that the depletion rate for coal not be reduced.

Requests that domestic exploration and development expenditures be currently deductible and not subject to recapture, and that foreign exploration expenditures be deductible as incurred.

National Coal Association, E. B. Leisenring, Jr., Chairman of the Tax Committee (April 1)

Suggests that the present 10-percent depletion allowance for coal be extended to coal reclaimed from slag heaps, gob piles, and settling basins. Recommends that interest on capital borrowed for mine development or acquisition of depreciable assets not be deductible against mine income in determining the 50 percent of net income percentage depletion allowance limitation. Advocates that coal processed into oil, gas, or solid low-sulfur fuel be given the same right as is given to oil shale by applying the percentage depletion rate to the value of the mineral after its conversion.

Business Roundtable, represented by Charles Walker (April 2)

Opposes any reduction in percentage depletion.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Proposes reenactment of 22-percent depletion for oil and gas.

Honorable Dewey F. Bartlett, U.S. Senator, Oklahoma (April 7)

Favors reinstatement of percentage depletion for oil and gas producers. Alternatively, urges technical correction of defects in the Code which deny percentage depletion to independent producers, contrary to the intent of Congress. Indicates that these defects involve the "65 percent of taxable income rule", the rule excluding retailers, and the "transfer of property rule".

In addition, urges that the portion of income from production of oil and gas be treated as capital gain in order to retain and attract capital to this industry. Also, suggests allowance of investment tax credit for exploration and development drilling expenses, geological and geophysical expenses, and lease acquisition costs, or more rapid write-off of currently depreciation and cost depleted items.

Opposes provision of the House bill limiting deduction for intangible drilling costs of independent producers because it will lead to the drilling of fewer wells and less production.

7. Net Operating Losses

Chamber of Commerce of the U.S., Walker Winter (March 18)

Recommends an extension of the net operating loss carryforward period for new businesses.

Edison Electric Institute, represented by James J. O'Connor, Executive Vice-President of Commonwealth Edison Co. of Illinois (April 1)

Suggests amending net operating loss provisions to provide electric utilities with maximum 7-year carryforward and 10-year carryback periods, if the taxpayer who elects to increase the carryback period reduces the carryforward period by an equal number of years.

8. Mortgage Tax Credit for Financial Institutions

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Opposes the proposed mortgage tax credit for financial institutions as expensive and undesirable in terms of both tax and housing policy.

National Association of Home Builders, John C. Hart, President (March 23)

Urges the adoption of tax incentives to assure a supply of residential mortgage funds. Recommends the adoption of a mortgage interest tax credit and the imposition of a minimum investment in residential mortgages for pension plans.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Supports a mortgage interest tax credit as provided under S. 1267, the Financial Institutions Act of 1975, under which a tax credit of 1.5 percent to 3½ percent would be allowed for interest on qualified residential property loans (the 3½ percent credit would be allowed where 80 percent of the savings and loan association's portfolio is invested in such loans) because it would add stability to housing finance. Recommends that the credit be allowed as an alternative to (but not a substitute for) the bad debt deduction provided for savings and loan associations under present law (with an election available each year).

National Savings and Loan League, Gilbert Roessner, Past President (April 7)

Supports S. 1267, the Financial Institutions Act of 1975, except that the League recommends a maximum credit of 5 percent (rather than 3½ percent) in order to make the effective tax rate for savings and

loan associations the same as that for commercial banks (the 5 percent credit would be allowed where 70 percent of a savings and loan's portfolio consists of qualifying residential property loans). Claims that the credit would tend to keep mortgage interest rates lower during periods when competition for funds is greatest. Suggests that the credit be an option to the bad debt deduction allowed under existing law.

Federal National Mortgage Association (FNMA), Oakley Hunter, Chairman of the Board and President (April 7)

Supports a mortgage interest tax credit and extension of the credit to FNMA. If the credit is extended to FNMA, states that it would pass the benefit of the credit to home buyers. Alternatively, FNMA seeks to be covered by the special savings and loan bad debt deduction provisions of present law. Maintains that it should be allowed the credit or bad debt deduction in order to prevent discrimination.

9. Utility Tax Proposals

Honorable William E. Simon, Secretary of the Treasury (March 17)

Presents the six-point tax package for utilities recommended by the President's Labor-Management Committee (also listed in summary on energy-related tax proposals) :

(1) increase investment tax credit permanently to 12 percent for all electric utility property (except for generating facilities fueled by petroleum products) ;

(2) give electric utilities full and immediate tax credits on construction progress payments for construction of property taking 2 or more years to build (except for petroleum-fired facilities), thus removing the 5-year phasein of such progress payment credits (but only for those utilities which "normalize" the increase in the credit for ratemaking purposes and which are permitted by their State regulatory agencies to include construction work in progress in the rate base) ;

(3) permit electric utilities to begin depreciation of major construction projects for nonpetroleum-fired facilities during the construction period (the costs qualifying for the investment credit construction progress payment provision) ;

(4) extend to January 1, 1981, the period during which pollution control equipment installed in a pre-1969 plant will qualify for the 5-year amortization ;

(5) provide for an election of 5-year amortization in lieu of normal depreciation and investment credit for costs of converting or replacing a petroleum-fired generating facilities ; and

(6) permit postponement of tax on regulated utility common stock dividends reinvested by taking a stock dividend in lieu of cash dividends.

Estimates a revenue loss of \$800 million for fiscal 1977 from the above six-point utility tax program.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges rejection of the president's proposed tax relief for electric utilities, including the deferral of tax on utility dividend reinvestments, as an unneeded tax subsidy.

Robert M. Dreves, Chairman of the Board, Peoples Gas Co., on behalf of the American Gas Association (March 31)

Recommends encouraging the purchase of common and preferred stocks of energy utility companies by providing a tax deferral on dividends reinvested in the utility paying the dividend, and defining "utility" broadly enough so that tax legislation will encompass all phases of the natural gas industry—production, transmission, distribution and storage, including a holding company.

American Public Power Association, Larry Hobard, Assistant Executive Director (April 1)

Opposes additional tax benefits for electric utilities proposed by the President's Labor-Management Committee. Believes that additional tax benefits for privately-owned electric utilities discriminate against their publicly-owned competitors. Asserts that direct outlays are more effective, open and even-handed, and some administration officials have stated that special benefits no longer are needed because of the current financial condition of private electric utilities.

Edison Electric Institute, represented by James J. O'Connor, Executive Vice-President and Comptroller of Commonwealth Edison Company of Illinois (April 1)

Proposes that taxation of dividends from common stock reinvested in public utilities be deferred until the investors dispose of these shares of stock.

American Telephone & Telegraph Co., Robert N. Flint, Vice President and Comptroller (April 1)

Urges that taxation of dividends from common stock reinvested in public utilities be deferred until the investors dispose of such shares.

U.S. Independent Telephone Association, John J. Douglas, Executive Vice President-Finance (April 1)

Maintains that utility company dividends to recipients who have chosen to reinvest them in an automatic reinvestment plan should be given the same tax treatment as is given to stock dividends by deferring the tax on the distribution of the reinvested dividends.

Also, proposes allowance of a corporate tax deduction by utilities for dividends paid on designated new issues of preferred stock, but that such dividends should not be entitled to the 85-percent deduction given corporate recipients of intercorporate dividend distributions.

10. Railroad Tax Proposals

Chamber of Commerce of the U.S., Walker Winter (March 18)

Endorses House provision to extend the 50-year amortization of railroad grading and tunnel bores placed in service before 1969, and also to extend the 5-year amortization of railroad rolling stock until 1980.

Association of American Railroads, Stephen Ailes, President and William J. Harris, Jr., Vice-President, Research and Test Department (April 6)

Maintain that depreciation or amortization of track improvements instead of the current retirement-replacement system, will help gen-

erate an internal cash flow to finance restructuring track to carry heavier loads. State that outside financing is not available because the track structure is not considered as security for a loan and the existing rail plant is pledged under general mortgages.

W. Graham Claytor, Chairman of Board, Southern Railway (April 6)

Endorses committee action last July on H.R. 6860 to provide a 12-percent investment tax credit for a five-year period for certain types of railroad fixed equipment.

Recommends rapid amortization of track structure improvements to help finance costs of such activity. Believes the tax deferral will provide the internal cash flow needed because outside funds are not readily available for this type of investment.

Frank E. Barnett, Chairman, Board of Directors and Chief Executive Officer, Union Pacific Railroad (April 6)

Endorses provision in House bill (H.R. 10612) which would allow 50-year amortization of grading and tunnel bores. Recommends 10-year amortization of additions and betterments to track structure.

Endorses committee decision of July 1975 to provide 12-percent investment tax credit for five years for various stationary railroad equipment. Recommends removal for railroads of 50-percent limitation on investment credit and permission to use carryover credits on a first-in-first-out basis.

John A. Fishwick, President and Chief Executive Officer, Norfolk and Western Railroad (April 6)

Supports House bill provision for 50-year amortization of grading and tunnel bores. Recommends that 10-year amortization be made available for assets now subject to retirement-replacement depreciation.

Endorses previous committee decision for 12-percent investment tax credit for track improvements, communications and signal systems, rolling stock classification yards and trailer and container loading facilities.

Trustees of Penn Central Transportation Company, represented by Robert W. Blanchette, Chairman (April 9)

Recommends that the 7-year carryover period be continued for pre-transfer net operating losses of the bankrupt railroads which transferred property to ConRail on April 1, 1976.

Trustees of the Reading Company, represented by A. William Hesse, Jr., Chief Executive Officer, and Ernest S. Christian, Counsel (April 9)

Propose an amendment to allow the bankrupt railroads which transferred railroad properties to ConRail on April 1, 1976, an election to recognize for tax purposes any gains or losses which they realized from this transfer; or alternatively, to provide a carryover of tax status for the stock and securities received for the railroad properties from ConRail.

G. Capital Gains and Losses

Honorable William E. Simon, Secretary of the Treasury (March 17)

Supports the gradual extension of the holding period for long-term capital gains treatment to 12 months over a three-year period, as well as the House provision to increase the amount of net capital losses that may be offset against ordinary income from \$1,000 to \$4,000 over a three-year period. However, recommends an effective date for these provisions of January 1, 1977, instead of January 1, 1976.

Proposes adoption of a sliding-scale approach for taxation of capital gains and losses (with the deduction based upon the holding period rather than the current flat 50-percent deduction for long-term gains): (1) up to one year—no deduction; (2) 1–5 years—50 percent; and (3) 5–25 years—one percent additional deduction for each year (or up to 70 percent). (Under this proposal, the 25-percent alternative capital gains tax on the first \$50,000 would be repealed.) Suggests that the sliding-scale be effective on January 1, 1976 for gains; and on January 1, 1977 for losses (with repeal of the alternative tax on January 1, 1976). (In addition, the full deduction for capital gains under the sliding-scale proposal would be includible in the “minimum taxable income” proposal.)

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Estimates that the capital gains tax preference results in a revenue loss of \$6.2 billion, with most of the benefit going to the one percent with incomes in excess of \$50,000 per year. Believes that capital gain income should be taxed as is other types of income.

Objects to the House provision to increase the allowed offset of capital losses against ordinary income, as an unjustified benefit to higher income persons. Indicates that it might be appropriate to consider increased offset of capital losses when capital gains are fully taxed.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Favors reduced taxation of capital gains proportionate to the length of time the asset is held as a means of reflecting inflation over time and to encourage equity investment. Opposes lengthening of the holding period for long-term capital gains as a detriment to capital investment. Urges retention of the alternative capital gains tax rate for individuals and corporations.

Recommends retaining the present rule with respect to recapture on real estate capital gains. Supports House provision to increase the allowable capital loss offset against ordinary income. Proposes that individuals be permitted a 3-year carryback of capital losses as allowed for corporations. Urges that no change be made in the “wash sales” provision. Opposes any change with regard to capital gains treatment of patents.

Also requests that no changes be made in capital gains provisions relating to timber and coal and iron ore royalties.

American Institute of Certified Public Accountants (March 18)

Supports extension of the holding period to 12 months. Recommends a sliding scale of exclusions for longer holding periods, start-

ing at 50 percent for one year and increasing by 5 percent per year up to a maximum exclusion of 80 percent (after 6 years). Also, proposes an increase in the capital loss offset against ordinary income to \$5,000, and to extend the 3-year capital loss carryback provisions to individuals.

Honorable James L. Buckley, U.S. Senator, New York (March 19)

Recommends that the cost basis of a capital asset be adjusted to reflect inflation.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Endorses extension of holding period for long-term capital gains from 6 months to one year; however, sees no reason for retaining the 6-month holding period for futures transactions in any commodity subject to the rules of a Board of Trade or Commodity Exchange. Recommends deletion of this exception.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Contends that special capital gains treatment discriminates in favor of income from assets over earned income. Argues that capital gains should be taxed in full as are wages. States that two-thirds of the tax benefit goes to the 1.2 percent of taxpayers with incomes exceeding \$50,000.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Maintains that capital gains taxation is one of the causes of inadequate capital because it reduces private capital in favor of Government spending and lowers individual incentives to invest in corporate equities. Opposes any changes that would reduce either the existing incentives to invest or the savings available for investment, including the extension of the holding period to one year.

Forest Industries Committee on Timber Valuation and Taxation (March 22)

Oppose extending the holding period for long-term capital gains treatment for timber.

C. M. Gatton, Bristol, Tennessee (March 22)

In lieu of elimination of capital gains as an item of tax preference, suggests a sliding-scale reduction of the maximum capital gains tax rate based on the time period held—ranging downward from a 35-percent rate for the first 5 years.

National Association of Realtors, Julio S. Laguarta, Chairman of the Legislative Committee (March 23)

Urges the committee to enact capital gains provisions which recognize the effect of inflation and encourage the formation and turnover of capital, and to increase the existing capital gains exclusion to a sales price of \$35,000 for the sale of a home by a taxpayer over 65 years of age.

National Apartment Association, Don Lawrence, President (March 23)

Favors the sliding-scale approach for capital gains and losses.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. T. Slick, Jr., Senior Vice President, Exxon Co., U.S.A. (March 25)

Suggests modifications to capital gains taxes, such as an inflation adjustment to the cost basis to eliminate the payment of taxes on profits created solely by inflation.

National Association of Home Builders, John C. Hart, President (March 23)

Does not object to extending the holding period to 12 months. Also, proposes expansion of the exclusion on the gain from the sale of a residence by a taxpayer age 65 or over.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Opposes an increase in capital gains tax rates, taxation of capital gains as ordinary income, and taxation of capital gains at death.

Proposes that any increase in the holding period for long-term capital gains treatment should be accompanied by a reduction in the rate of the tax related to the length of time the property is held.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Request the reduction of the corporate capital gains rate to 25 percent and the removal of capital gains as a tax preference item subject to the minimum tax.

C. V. Wood, President of McCulloch Oil Corp. and Chairman of the Committee of Publicly Owned Companies (March 31)

Expresses concern over the need for additional capital investment and the correlative need for more favorable tax policy relating to capital. Favors: (1) the exclusion of the first \$1,000 capital gains from adjusted gross income; (2) a sliding scale for capital gains starting at 25 percent for assets held under six months and dropping for longer periods; (3) expand (as H.R. 10612 does) the maximum capital loss deduction from \$1,000 to \$4,000.

Charles Moeller, Jr., Senior Vice President, Metropolitan Life Insurance Co. (April 1)

Recommends lowering capital gains taxation by reducing the tax rate for longer holding periods and by increasing the capital loss deduction.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Favors a capital loss carryback, full deductibility of short-term capital losses against ordinary income, and unlimited deductibility of a fraction of long-term capital gain against ordinary income.

Also suggests complete removal of capital gains from the regular income tax and subjecting them to a separate progressive tax at rates ranging from 4 to 22 percent.

Associated General Contractors of America, represented by Bill Hof-acre, Vice-President, Daniel International Corp. (April 2)

Recommends a capital loss carryback and more liberal deduction of capital losses against ordinary income. Also favors increased capital gains exclusion.

Norman Ture (April 2)

Proposes an increase in the existing 50-percent exclusion for a long-term capital gains to 100 percent, perhaps with a \$1,000 limit.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Opposes House bill provision increasing the six-month holding period for capital gains. Endorses the Treasury's sliding scale proposal. Recommends the restoration of the 25-percent alternative capital gains tax.

Proposes that the capital loss deduction be increased to \$5,000 rather than the \$4,000 in the House bill and permit 100-percent deductibility for all capital losses. Also, recommends a 3-year capital loss carryback.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Oppose House provision increasing the six-month holding period for capital gains. Recommends adoption of a sliding scale formula that would add to the existing 50-percent deduction an additional 2 percent of the gain for each year a capital asset is held, up to a maximum deduction of 90 percent on capital assets held more than 21 years.

Proposes creation of a 3-year carryback of capital losses against capital gains and a \$5,000 capital loss offset against current income. Favors exclusion of up to \$1,000 of capital gains per year and a \$25,000 lifetime exclusion.

Favors allowance for the deferral of capital gains tax on sale proceeds reinvested in another capital asset or assets within a thirty-day period.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Company (April 5)

Recommends a 3-year carryback of capital losses, a sliding scale approach for inclusion of gains, and a tax-free rollover of reinvestments (with some limits).

American Hotel and Motel Association, Warner H. McLean (April 7)

Believes that long-term capital gain tax rates should be lowered or kept at their current rate.

H. Export and Foreign Income Provisions

1. DISC

Honorable William E. Simon, Secretary of the Treasury (March 17)

Opposes the House cut-backs in the DISC provision. Claims that DISC stimulates exports (an estimated \$4-6 billion per year) and

creates jobs. Argues that DISC should not be altered at all until there is agreement in multilateral trade negotiations concerning uniform rules for taxation of exports. Considers the incremental approach to be unsatisfactory, unfair and overly complicated. Notes that this approach was rejected when the legislation was originally passed in 1971.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges repeal of DISC as a wasteful use of Federal revenues, effective for taxable years beginning after June 30, 1976. Indicates that this would produce a revenue gain of \$1.4 billion for fiscal 1977. (If sufficient evidence is presented, suggests that consideration might be given to extending DISC for small export businesses until 1981, allowing more time to develop a more effective method of encouraging exports by small business.) Contends that better use can be made of the revenue now lost from DISC.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes any restriction on the DISC provision as detrimental to jobs and investment in export businesses.

National Association of Manufacturers, Roland M. Bixler (March 18)

Objects to any proposed restrictions on DISC provisions. Claims that DISC has been successful in encouraging exports.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Contends that DISC is a wasteful and expensive export tax subsidy that does not result in sufficient increased exports to justify the sizeable cost. Urges its complete repeal.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Recommends immediate repeal of the DISC provision as an inefficient tax subsidy benefiting large companies already exporting. Asserts that the contribution of DISC to increased export sales has never been convincingly demonstrated. Contends that the adoption of a floating money exchange system has made even the original balance-of-payments justification for DISC largely outdated.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Recommends that DISC be continued without change at this time. Feels that experience with it has been too short to determine its full incentive effects on U.S. exports.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco Inc. (March 25)

Urges that the present DISC provisions be continued.

National Foreign Trade Council, Robert M. Norris, President (March 26)

Believes that DISCs have materially assisted in the financing of export-related receivables and provided a source of funds to finance long-term market development programs, which might not otherwise have been undertaken.

Manufacturing Chemists Association, F. Perry Wilson, Union Carbide Corporation (March 26)

Asserts that the DISC incentive has accomplished its goal of increasing exports, and that it has increased employment in the United States. Considers DISC as essential for business to remain competitive in the international market place.

U.S. Council of International Chambers of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Urges that no changes be made in the DISC provisions.

Honorable Joseph E. Karth, Member of Congress, Minnesota (March 29)

Recommends the adoption of the DISC provisions in the House-passed bill.

International Tax Institute, Inc., Paul D. Seghers, President (March 29)

Opposes the provisions in the House bill which would reduce the benefits of DISC because DISC has been effective in increasing exports of U.S.-manufactured products. Contends that the repeal or severe curtailment of DISC benefits would result in a loss of U.S. exports and loss of jobs in U.S. factories. Suggests that the DISC provisions be amended to make them more attractive to smaller U.S. manufacturers by allowing deferral of 100 percent of the U.S. tax on the first \$100,000 of DISC income.

Iowa Beef Processors, Inc., B. Douglas Titus, Staff Attorney (March 29)

Urges that the DISC provisions in the House-passed bill be rejected and that the DISC benefits under present law be retained. Recommends that if the proposed incremental approach contained in the House bill is adopted, that it be adopted across-the-board for all presently qualified export commodities. Believes that the House bill complicates the DISC program and will result in eliminating much of the stimulus it has provided in the export field. Asserts that the bill lacks any well thought out or well-developed transitional rules for companies exporting items which would be disqualified under the bill.

Nebraska State Legislature and the Midwest Task Force for Beef Exports, Inc., represented by the Honorable Jules W. Burbach, Speaker of the Nebraska State Legislature and President, Midwest Task Force for Beef Exports, Inc. (March 29)

Recommends that the proposed cutbacks in DISC benefits contained in the House bill, particularly the elimination of agricultural products from future DISC treatment, be rejected. Argues that the export-

ing of livestock and livestock products is largely undertaken by small firms which do not have the resources to establish foreign-based export offices and consequently the business of these firms would be seriously impaired if the DISC benefits were repealed with respect to livestock. Asserts that the allowance of DISC benefits to exporters of agricultural products serves to counterbalance somewhat foreign tariff and nontariff barriers to American agricultural products.

Special Committee for U.S. Exports, David C. Garfield, Chairman (March 29)

Urges that the House amendments to the DISC provisions be rejected in their entirety. Believes that the DISC provisions in the House bill, if enacted, would represent a serious blow to U.S. exporters. Recommends that the existing DISC provisions remain in effect as a permanent feature and that they should be expanded ultimately to a 100-percent deferral. Proposes that no exclusion from DISC be provided other than those already in the law for purposes of insuring adequate domestic supplies of certain commodities. Suggests that procedures for establishing and operating a DISC subsidiary be simplified so that additional small- and medium-sized businesses will be encouraged to participate and assist in meeting national import goals.

FMC Corp., Robert H. Malott, Chairman of the Board and President (March 29)

Recommends that DISC be continued in its present form. Believes that DISC has enabled FMC to compete more effectively with foreign firms which benefit from numerous Government granted export incentives. Asserts that U.S. exporters are provided fewer export incentives than their foreign competitors. Contends that DISC has stimulated exports, created and preserved jobs in the United States, increased U.S. tax revenues, and resulted in new investment in plants in the U.S. rather than overseas.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Support continuation of existing DISC provisions, and oppose restrictions on the availability of DISC benefits to the forest products industry.

National Machine Tool Builders' Association, J. B. Perkins, President (March 30)

Objects to proposed changes to the DISC provisions because these changes would have a serious adverse effect on the export business and cash flow of many small companies.

Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President (March 30)

Supports retention of the DISC rules. Considers DISC to be a highly successful stimulus to U.S. exports.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Maintains that the DISC provisions should either be left unchanged or should be expanded.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Urges retention of the present DISC rules.

Business Roundtable, represented by Charles Walker (April 2)

Opposes provision in House bill that make DISC incremental. Believes it would reduce employment.

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Objects to House changes in DISC on the grounds that it would reduce employment.

LeRoy Johnson, Tax Manager, Northrup, King and Company (April 5)

Expresses opposition to the House bill provision reducing the benefits of DISC because the seed industry needs it to compete in foreign markets. Objects to the incremental approach in the House bill for agriculture because of the volatility of the dollar value of agriculture exports.

2. Exclusion of Income Earned Abroad (Individuals)

Chamber of Commerce of the U.S., Walker Winter (March 18)

Argues against the proposed phaseout of the exclusion for income earned abroad. Maintains that little revenue would be gained as corporate employers would have to pay higher salaries, which would reduce their tax.

National Association of Manufacturers, Roland M. Bixler (March 18)

Opposes repeal of section 911. Claims that it would only serve to increase the cost to employers to compensate.

American Institute of Certified Public Accountants (March 18)

Objects to the proposed repeal of the section 911 exclusion for individuals. Claims that this would create a further disadvantage for many U.S. companies.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco Inc. (March 25)

Opposes elimination of the earned income exclusion contained in section 911 of present law.

National Foreign Trade Council, Robert M. Norris, President (March 26)

Expresses concern with repeal of exclusion of earned income abroad (sec. 911). Believes it would increase the cost of employment for overseas duty and thus have a negative impact on the competitive position of U.S. business.

American Bankers Association, William M. Horne, Jr., Chairman, Taxation Committee (March 26)

Objects to the phaseout of exclusion of income earned abroad (sec. 911), because the phaseout would increase the cost of employing

U.S. personnel overseas, thus being detrimental to American business operations.

U.S. Council of International Chambers of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Expresses opposition to the phaseout of the earned income exclusion.

International Tax Institute, Inc., Paul D. Seghers, President (March 29)

Opposes the provisions in the House bill which would repeal the exclusion for income earned by U.S. citizens abroad because it would make it more difficult for U.S. business to get employees to work in foreign countries.

Foster Parker, President and Chief Executive Officer, Brown and Root, Inc. (March 29)

Recommends that the exclusion for income earned abroad by U.S. citizens not be repealed with respect to income earned abroad by U.S. construction workers because the resulting increased labor costs might prevent U.S. construction companies from making bids competitive with the bids of foreign companies utilizing foreign skilled labor.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Opposes the provision in the House bill which would repeal the existing exclusion for income earned abroad by qualifying individuals.

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Objects to reduction in exclusions for income earned abroad on the grounds that it will reduce employment of U.S. citizens.

3. Deferral on Corporate Income Earned Abroad

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Recommends repeal (as the Senate did in 1975) of the tax deferral on income earned by foreign subsidiaries of U.S.-based corporations. Suggests taxing currently U.S. persons holding a 1-percent or greater interest in a foreign corporation on their proportionate share of the income from the foreign corporation in cases where more than 50 percent of the stock of the foreign corporation is controlled by U.S. persons.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes taxing foreign earnings currently. Maintains that the income should only be taxed when received as a dividend to the U.S. parent company.

National Association of Manufacturers, Roland M. Bixler (March 18)

Maintains that foreign source income should not be taxed until "realized" (received) by the U.S. parent company.

American Institute of Certified Public Accountants (March 18)

Supports the present tax treatment of unremitted foreign earnings.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Argues that the profits of overseas subsidiaries of U.S. corporations should be taxed currently in order to achieve tax neutrality between domestic and foreign source income. Estimates that repeal would increase revenues by \$2 billion.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Urges elimination of the tax deferral for overseas earnings as an unjustified tax expenditure favoring foreign investment.

Council of State Chambers of Commerce, George S. Koch, Chairman of Federal Finance Committee (March 19)

Indicates that removal of the deferral of foreign source income would produce relatively modest revenues, with the potential that low-tax countries could increase their tax to offset this potential revenue gain. Opposes repeal of the deferral provision.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco Inc. (March 25)

Opposes elimination of so-called "deferral" in the taxation of earnings of controlled foreign subsidiaries.

Emergency Committee for American Trade, Ralph A. Weller, Otis Elevator Co. (March 26)

Favors the continuation of deferral of U.S. tax on earnings of foreign subsidiaries. Believes taxing unremitted foreign earnings would damage the competitive position of U.S. subsidiaries and is analogous to taxing individual shareholders of U.S. corporations on undistributed corporate profits.

U.S. Council of International Chamber of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Argues that elimination of deferral would place U.S. corporations at a disadvantage with their foreign competitors and might cause retaliatory action by foreign governments.

Manufacturing Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Urges retention of deferral of tax on earnings of foreign subsidiaries of U.S. corporations. Believes eliminating deferral would create an advantage to foreign competitors of U.S. industry.

Jerome B. Libin, Attorney, Washington, D.C. (March 26)

Supports retention of deferral of income of foreign subsidiaries of U.S. corporations because eliminating it would place the United States alone among nations denying its corporations the opportunity to compete on an equal footing for international business. Believes that subpart F provisions as amended in 1975 can be relied on to remedy any problems of tax avoidance or abuse.

International Tax Institute, Inc., Paul D. Seghers, President (March 29)

Opposes U.S. taxation of income of foreign corporations before the income is received by U.S. taxpayers.

Prof. Robert B. Stobaugh, Harvard Business School (March 29)

Recommends that U.S. taxes on U.S. companies operating abroad not be increased but that the Government should begin work on a multilateral tax agreement with other nations where multinational companies are headquartered in order to make sure that American companies pay taxes at the same rate as do their foreign competitors. Believes that if the unremitted earnings of U.S. owned manufacturing subsidiaries abroad were currently subject to U.S. tax, then there would be an immediate increase in U.S. government revenues but that this increase would be turned into a net loss after a period of time (5 to 8 years) because the increased taxes paid by U.S. subsidiaries would weaken them vis-a-vis their foreign competitors.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Support deferral of taxes on unremitted earnings of foreign subsidiaries of U.S. companies.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Urges that earnings of foreign corporations not be subject to taxation by the United States until they are distributed to United States shareholders as dividends.

National Machine Tool Builders' Association, J. B. Perkins, President (March 30)

Objects to proposals to tax annually the income of controlled foreign corporations.

Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President (March 30)

Opposes proposals which would require payment of U.S. taxes on the current income of overseas subsidiaries of U.S. parent corporations on the grounds that these proposals are punitive and would deprive the U.S. parent corporations of needed funds for U.S. investment projects.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Proposes that Congress consider eliminating Subpart F of the Code: or if it is kept, consider reenacting the minimum distribution exception.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Argues that the present rules for taxing undistributed profits of foreign subsidiaries should not be changed, with a possible exception for profits derived from products imported into the United States.

Business Roundtable, represented by Charls Walker (April 2)

Recommends against any limitation on current deferral of corporate income earned abroad.

International Economic Policy Association, Timothy W. Stanley, President (April 9)

Maintains that the so-called "deferral" issue is a misnomer, as it is hard to see how an American shareholder can fairly be taxed on the earnings of a foreign corporation in which he has an interest before the overseas affiliate has in fact distributed its earnings. Contends that proposals for premature taxation of foreign source earnings would be counterproductive.

4. Foreign Tax Credit

Honorable William E. Simon, Secretary of the Treasury (March 17)

Asserts that the foreign tax credit is sound and is neither a tax loophole nor an incentive to invest abroad, but merely a means of allocating primary taxing jurisdiction to the country where the income is earned. Does not object to the House provision to repeal the per-country limitation. Supports the foreign loss recapture provision as well as the capital gain adjustment to the credit. Also, views the full gross-up for less-developed country dividends as a desirable simplification, eliminating an inefficient tax preference.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Proposes that the foreign tax credit attributable to foreign oil and gas extraction income be limited to 48 percent of such income, effective for taxable years beginning after January 1, 1976. Estimates a revenue gain from this of \$120 million for fiscal 1977.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Objects to proposals to change the foreign tax credit to a deduction. Indicates that most States allow a credit for income taxes paid to another State, and that this is the proper analogy to make. Recommends that a tax credit also be allowed for certain other foreign taxes not classified as "income" taxes to achieve equity between companies.

Opposes elimination or fragmentation of either the overall limitation or per-country methods of computing the credit, as well as any modification of the credit which would require that any foreign losses that offset U.S. income be recaptured in future years.

National Association of Manufacturers, Roland M. Bixler (March 18)

Urges retention of the foreign tax credit. Maintains that the credit does not allow foreign taxes to be credited against U.S. taxes due on income from U.S. sources. Opposes the repeal of the per-country limitation and the foreign loss recapture provision.

American Institute of Certified Public Accountants (March 18)

Favors continuation of the existing foreign tax credit, rather than treating foreign taxes as deductions.

Public Citizens' Tax Reform Research Group, Robert M. Brandon (March 18)

Recommends that excess foreign tax credits be eliminated.

Honorable Dale Bumpers, U.S. Senator, Arkansas (March 19)

Maintains that the IRS has been permitting the crediting of certain payments to foreign governments that are in fact royalties. Suggests that existing law on foreign tax credits be clarified to provide that payments that are actually royalties or gross income taxes not be eligible for the credit. States that this would remove a disincentive for domestic exploration and production of energy resources.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Proposes changing the credit for foreign income taxes to a deduction—as are taxes paid to State-local governments. Also, asserts that payments made by oil companies to OPEC nations should be classified as royalties and be deductible rather than credited as an income tax. Further, argues that if the foreign tax credit is not eliminated, the overall limitation method should be phased out.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco Inc. (March 25)

Opposes elimination of the per-country limitation for non-oil income and the proposal for recapture of losses. Also, objects to the proposed limitations on foreign tax credits with respect to foreign-source capital gains.

Emergency Committee for American Trade, Ralph A. Weller, Otis Elevator Co. (March 26)

Recommends that no change be made in the foreign tax credit. Believes the credit avoids double taxation while insuring that foreign source income pays the higher of the U.S. or foreign tax rate. Argues that changes in the credit to a deduction would result in punitive tax rates and a substantial withdrawal of U.S. business from abroad.

National Foreign Trade Council, Robert M. Norris, President (March 26)

Objects to any restriction in the foreign tax credit because such restrictions would seriously curtail the positive contributions which foreign investments have traditionally made to U.S. balance of payments and economic growth. Opposes repeal of per country limitation.

U.S. Council of International Chamber of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Asserts that the repeal of the foreign tax credit, or any substantial modification of that provision, would drive American businesses from the foreign scene, thus permitting foreign competitors to take over international markets. Contends that the result would be adverse to U.S. exports and U.S. balance of payments.

Manufacturing Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Believes the foreign tax credit has been the cornerstone of U.S.-International Tax Policy and that any elimination of the credit would be unfair and discriminatory against U.S. taxpayers.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee (March 26)

States that U.S. mining companies earn a lower rate of return than mining companies of other countries operating internationally. Argues that given this relative lower profitability; favorable tax treatment for U.S. mining companies is required. Believes such treatment should include allowing foreign subsidiaries to be treated as branches in certain cases, allowing carryback and carryovers of disallowed foreign tax credits. Also, urges that a House bill provision repealing the per country foreign tax credit limitation and providing for recapture of foreign losses not be adopted.

International Tax Institute, Inc., Paul D. Seghers, President (March 29)

Opposes suggestions that the foreign tax credit be repealed. Argues that repeal of the foreign tax credit would result in aggregate U.S. and foreign taxes of more than 70 percent on income of U.S. business operating in developed countries with the result that U.S. business would be ruined in the largest market abroad for U.S. goods.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Urge rejection of limitations on the use of foreign tax credits.

American Iron & Steel Institute, Frederick G. Jaicks, Chairman (March 30)

Recommends that the foreign tax credit be retained with the election of either the overall or per-country limitation, and that the restriction on the use of foreign tax credits arising from mining operations provided in section 901(e) be eliminated.

National Machine Tool Builders' Association, J. B. Perkins, President (March 30)

Opposes proposals to repeal or drastically limit the foreign tax credit.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Recommends retention of the "per country" limitation on the foreign tax credit. Opposes the proposal in the House bill to "recapture" losses under the "overall" limitation, as well as the capital gain revisions which relate to the overall limitation.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Feels that any changes to the foreign tax credit provisions should be limited to (a) repeal of the per-country limitation, (b) the gross up of less developed country corporations' dividends, (c) the recapture of foreign losses, and (d) a limitation on the foreign tax credit available with respect to foreign capital gain income.

Business Roundtable, represented by Charles Walker (April 2)

Opposes proposals to repeal or limit the foreign tax credit.

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Urges rejection of the elimination of the per-country limitation.

International Economic Policy Association, Timothy W. Stanley, (April 9)

Argues against the substitution of a deduction instead of a credit for foreign taxes as leading to double taxation. Asserts that the tax credit is not tax incentive to produce abroad.

5. Withholding on Foreign Investment Income

Honorable William E. Simon, Secretary of the Treasury (March 17)

Requests the elimination of the existing withholding taxes on dividends and interest paid to nonresident aliens and foreign corporations. Maintains that removal would increase investment by foreigners in the U.S.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges retention of the 30-percent withholding tax on investment income earned by nonresident aliens or foreign corporations.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Recommends elimination of the current 30-percent withholding tax on investments in the U.S. by foreigners.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco Inc. (March 25)

Supports elimination of the withholding tax on dividends and interest paid to nonresidents.

National Foreign Trade Council, Robert M. Morris, President (March 26)

Urges elimination of 30-percent withholding tax on dividends paid to foreign investors because will aid U.S. companies in raising funds in international capital markets.

American Bankers Association, William H. Horne, Jr., Chairman, Taxation Committee (March 26)

Supports the permanent exemption from withholding for interest paid to nonresident aliens on bank deposits (as in the House-passed bill). Believes the exemption is necessary to remove continuing uncertainty in U.S. tax policy for attracting foreign funds to U.S. investments.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Urges the repeal of the withholding tax on interest and dividends paid to foreign investors.

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Recommends the repeal of the withholding tax on interest and dividends paid to foreign investors.

Thomas L. Chrystie, Senior Vice President, Merrill Lynch and Company (April 5)

Proposes repeal of the withholding tax on interest and dividends paid to foreign investors.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Supports repeal of 30-percent withholding tax on interest paid to nonresident aliens.

6. Income From Possessions

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Suggests that the proposed study of the tax treatment of U.S. corporations operating in Puerto Rico and possessions be required by July 1, 1977, rather than 1978.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes any change that would increase taxes on the income from possessions.

U.S. Council of International Chambers of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Approves of the proposed changes affecting possessions corporations.

American Chemists Associations, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Endorses proposed changes in treatment of U.S. possessions corporations.

National Trade Council, Robert M. Norris, President (March 26)

Approves of changes with respect to possessions corporations.

Richard N. Thompson, Secretary-Treasurer and General Counsel, Hy-Gain Electronics Corp. (March 29)

Urges the adoption of the new section 936 contained in the House bill.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Recommends retention of the existing incentives for economic development of Puerto Rico and U.S. possessions; or in the alternative, proposes that the possessions corporation provisions in H.R. 10612 be adopted.

7. Other Foreign Income Items

Honorable William E. Simon, Secretary of the Treasury (March 17)

Strongly supports the provision to end the tax loophole whereby wealthy individuals avoid U.S. tax through creation of foreign trusts.

Opposes any attempt to weaken the provision or to postpone its effective date.

Also, endorses the changes in the ruling requirements with respect to tax-free reorganizations of foreign corporations.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Agrees with the repeal of the preferential tax rates for Western Hemisphere Trade Corporations and China Trade Act Corporations. Also, endorses House provisions for strengthening the rules for taxation of income of foreign trusts and transfers to foreign trusts.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Recommends retention of the exclusion from gross-up on dividends of less-developed country corporations. Opposes elimination of the section 1248 exemption for gain on the stock of such a corporation. Objects to the elimination of the Western Hemisphere Trade deduction.

Also, supports repeal of the section 367 requirement for advance rulings for tax-free exchanges involving a foreign corporation.

Favors continuation of the tax exemption for ships under foreign flags. Claims that elimination of this exemption could draw retaliatory taxation by other countries.

National Association of Manufacturers, Roland M. Bisler (March 18)

Supports the elimination of the section 367 advanced ruling requirement.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Urges elimination of the special tax provisions for Western Hemisphere Trade Corporations and the allowance of both a credit and a deduction for foreign taxes paid on subsidiary income by a Less Developed Country Corporation.

American Petroleum Institute, Mid-Continent Oil and Gas Association, Rocky Mountain Oil and Gas Association, Western Oil and Gas Association, represented by W. R. Young, Vice Chairman of the Board of Directors and General Counsel, Texaco, Inc. (March 25)

Asks that present treatment of Western Hemisphere Trade Corporations be continued. Opposes proposals to require the gross-up of dividends from less-developed country corporations.

Supports the provisions of the bill which would make rulings under section 367 no longer necessary for certain transactions and provide for retroactive ruling in other cases, as well as the provisions relating to investments in U.S. property.

American Chemists Association, represented by F. Perry Wilson, Union Carbide Corp. (March 26)

Objects to repeal of Western Hemisphere Trade Corporations. Approves of the House changes in the provision relating to reorganizations involving foreign corporation.

Robert E. Holmgren, H. H. Robertson, Co. (March 26)

Explains a situation involving the company where it believes it was subject to double taxation on certain foreign income. Recommends

changes in the tax law which would rectify that situation for his company and any other in a similar situation.

U.S. Council of International Chambers of Commerce, William J. Nolan, Jr., Chairman, Committee on Taxation (March 26)

Urges that no changes be made in the Western Hemisphere Trade Corporation provision.

Approves of the changes in advance ruling requirements for reorganizations involving foreign corporations, as well as the provisions relating to investment in U.S. property.

National Foreign Trade Council, Robert M. Norris, President (March 26)

Objects to repeal of less-developed country provisions in House bill, to treatment of foreign tax credit with respect to capital gains income, and to the phaseout of Western Hemisphere Trade Corporation tax reduction provisions.

Approves of changes with respect to investment in U.S. property and in the advance IRS rulings' requirement on tax-free exchanges.

International Tax Institute, Inc., Paul D. Seghers, President (March 29)

Opposes the provision in the House bill which would repeal the Western Hemisphere Trade Corporation provisions of the Internal Revenue Code. Believes that repeal of the WHTC provisions would seriously diminish our trade in Latin America.

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Objects to the repeal of the Western Hemisphere Trade Corporation provisions.

Supports the provisions in the House bill which deal with advance rulings for certain transfers involving foreign corporations abroad.

Rubber Manufacturers Association, Malcolm R. Lovell, Jr., President (March 30)

Opposes the provisions of the House bill which would require grossing up of dividends from Less Developed Country Corporations and change existing tax credit calculations, on the basis that elimination of this mild incentive for an investment is harmful to the Nation's foreign policy and humanitarian objectives.

Associated General Contractors of America, Bill Hofacre, Vice-President, Daniel International Corp. (April 2)

Objects to repeal of WHTC provision.

State taxation of foreign source income

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes either the apportionment or the allocation of foreign source income among the States for income tax purposes. Maintains that tax policy affecting foreign income should be left to the Federal Government.

Council of State Chambers of Commerce, Robert E. Matson, Chairman, Committee on State Taxation (March 29)

Argues that the three-factor formula for apportioning interstate business income among the various States results in substantial inequities when it is applied to income from outside the United States. Recommends the adoption of an amendment which would establish equitable and uniform rules for State taxation of income from foreign sources. Proposes that States generally be precluded from taxing that portion of international investment income which is, under the Internal Revenue Code, allocated to sources outside the United States. Also proposes that States be precluded from applying the "worldwide combination" formula to foreign sources income as defined in the Internal Revenue Code.

American Textile Manufacturers Institute, Inc., represented by John T. Higgins (March 30)

Recommends enactment of Federal legislation to preclude States from taxing foreign source income by applying the "unitary business concept" or by including dividends received from foreign affiliates in the tax base of multinational corporations doing business in a State.

I. Miscellaneous Provisions of House Bill

1. Accumulation Trusts

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Recommends amending the House provision to (1) require the "exact method" rather than the "short cut method" in computing the throwback tax, (2) impose an interest charge on beneficiaries of trusts whose taxes have been deferred, and (3) extend the capital gains throwback rule to all trusts.

2. Cooperative Housing Associations

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Urges exemption from Federal income tax for funds from assessments held for the administration, maintenance, and operation of condominium and other homeowner associations.

National Association of Home Builders, John C. Hart, President (March 23)

Endorses exemption from income tax for homeowners' associations. *United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)*

Supports the provision of the House bill establishing a tax exemption for homeowners' associations, and cooperative housing associations.

3. "Deadwood" Provisions

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Indicates support for the "deadwood" provisions as removing unnecessary Code provisions and streamlining the Code.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Endorses the "deadwood" provisions to help simplify the Code language.

American Institute of Certified Public Accountants (March 18)

Urges passage of the "deadwood" provisions in title XIX of the House bill.

American Bar Association, Section of Taxation (April 9)

Recommends enactment of the "deadwood" provisions.

4. Credit for Garden Tools

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Feels that there is little justification for the \$7 tax credit for garden tools, and that it would be difficult to administer and to prevent abuse.

New York State Bar Association, Peter L. Faber, Chairman, Tax Section (March 19)

Considers the garden tool credit an example of cluttering up the Code with dubious provisions.

J. Other Income Tax Proposals

1. Individual

Tuition deduction

Honorable James L. Buckley, U.S. Senator, New York (March 19)

Proposes (in S. 2356) a deduction for educational tuition costs (higher education, vocation, or an elementary or secondary education) of up to \$1,000 per year paid to either a private or public school. Notes that Treasury has estimated a revenue cost of about \$2 billion, but feels that this must be counterbalanced by the savings to public schools for students that would attend a private school. Maintains that this proposal would assist in retaining the choice of private schools and would afford relief to taxpayers who pay twice (through taxes for public schools) to exercise their choice of private schools.

Honorable James Delaney, Member of Congress, New York (March 19)

Endorses the tuition deduction proposal in S. 2356 (also in his bill, H.R. 9865) as a means of retaining educational choice. Asserts that a tax deduction for public and private education would not be subject to the same constitutional questions as would a tax credit for private education.

Savings tax incentives

National Association of Manufacturers, Roland M. Bixler (March 18)

Suggests that consideration be given to allowance of a tax credit (with maximums) for an individual's net increase in private savings. Notes that this would involve recordkeeping problems.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Feels that the committee should take a close look at incentives such as deductions for savers and interest income credits.

National Association of Home Builders, John C. Hart, President (March 23)

Proposes an exemption for the first \$1,000 in interest earned on savings deposits (or an alternative tax credit up to \$250).

H. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association (April 5)

Suggests adoption of a tax credit for individuals who invest in equity securities similar to the investment tax credit.

U.S. League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Recommends a \$500 tax exclusion for interest earned on savings accounts. Also, endorses an optional \$600 exclusion or \$200 tax credit for interest on savings accounts in order to stimulate personal savings.

Individual Retirement Accounts (IRA's)

Charles Moeller, Jr. Senior Vice President and Economist, Metropolitan Life Insurance Company (April 1)

Urges reduced taxation on individual retirement savings plan.

Thomas L. Little, Chairman of the Board, First National Retirement System, Inc. (April 6)

Favors the creation of individual retirement accounts (IRAs) for housewives, or anyone else who wants to make voluntary contributions to his or her retirement.

Proposes permitting the tax-free rollover of monthly payments from a corporate pension plan into an individual retirement account as well as lump-sum distributions.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Supports section 1502 of the House bill, allowing IRA contributions by employees under qualified retirement plans. Also, the League suggests a phased-in increase in the limits under IRAs from \$1,500 to \$7,500 in order to achieve parity with self-employed plans. In addition, proposes that the IRA rules be revised so that excess IRA contributions can be returned to the depositor at any time without a tax penalty, and the elimination of the rule under which a lump-sum distribution from a pension plan cannot be rolled over to an IRA by an employee who has not participated in the plan at least 5 taxable years. Additionally, recommends the elimination of the rule which prevents a rollover of pension funds to an IRA by an employee who is at least age 59½. Further, believes that the 10-percent tax penalty on a premature withdrawal from an IRA should not apply to interest earned on excess contributions which are returned to the depositor before the due date of the tax return for the year.

Other proposals

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Suggests allowance of a limited deduction for costs incurred to prevent deterioration of a personal residence.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Proposes (in S. 2870) an exclusion from gross income for amounts received as a pension, annuity or other benefit retirement from the Federal Government, to the extent of the combination of the maximum amount of social security, old-age insurance benefit and the maximum allowable earnings under the Social Security Act for individuals under age 72. (The bill would also amend section 37(c)(1)(A) of the Code to exclude such Federal retirement benefits not taxed from the definition of retirement income eligible for the retirement income credit.)

2. Business

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes any change to eliminate or abridge the present deduction relating to losses from noncorporate obligations.

Also, recommends that full deduction be allowed for treble damage payments made in an antitrust case.

National Association of Home Builders, John C. Hart, President (March 23)

Asks consideration of an amendment to provide that FNMA commitment fees, financing fees, and other similar expenditures should be deductible ratably over the period of construction.

Also, urges the adoption of a provision authorizing the creation of an investment account for dealers and real estate. The provision would provide an assurance of treatment of gain as capital gain if the taxpayer made an election shortly after acquisition.

American Machine Tool Distributors' Association, Robert W. Shoeffler, President (March 30)

Recommends that the earnings accumulation ceiling in section 531 be increased to \$300,000.

American Textile Manufacturers Institute, Inc., represented by John T. Higgins (March 30)

Suggests a tax credit for qualified industry-sponsored research and development projects.

Also, suggests an amendment to section 481 to limit to 6 years the period in which the statute of limitations can be reopened by the Government in the case of changes in accounting methods.

National Coal Association, E. B. Leisenring, Jr., Chairman of the Tax Committee (April 1)

Proposes that coal mine operators be allowed to make currently deductible contributions into a tax-exempt trust to fund future benefits payable under the Federal black lung legislation, and that the benefits payable to the miner be exempt from tax.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Recommends that broker-dealers be permitted to set up a tax-free loss reserve fund.

John H. Filer, Chairman, Aetna Life and Casualty Company (April 5)

Urges the adoption of S. 2985, which would permit the consolidation of life insurance companies with property casualty companies like other corporations.

PART II—ADMINISTRATIVE PROVISIONS

A. Income Tax Return Preparers

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Generally endorses the House provision.

American Institute of Certified Public Accountants (March 18)

Does not believe that regulation is needed for professional preparers such as attorneys and CPAs. Generally supports the approach in the House bill as a practical solution.

B. Jeopardy and Termination Assessments, Levies, and Administrative Summons

1. Jeopardy and Termination Assessments

Honorable William E. Simon, Secretary of the Treasury (March 17)

Believes that the jeopardy assessments' provision goes too far in imposing burdensome administrative procedures on the Internal Revenue Service that unduly handicap its ability to collect taxes. Indicates that the recent *Laing* case should be taken into account in the legislation.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Generally endorses the House provision.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Proposes S. 137, a bill to provide for judicial confirmation of the amount and need for jeopardy assessment. The bill would provide that within 5 days the IRS must seek confirmation from the U.S. District Court with an opportunity for the taxpayer to be heard in the proceedings.

2. Levies

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Proposes S. 138, a bill to adjust to schedule of income which is to be exempt from levy by the IRS. Suggests that the exempt income should be based on the number of dependents and should be tied to the Consumer Price Index. The bill also raises the level of exemption from \$500 to \$1,000 for "fuel, provisions, furniture, and personal effects," and deletes the \$250 limit on "books and tools of a trade, business, or profession."

American Bar Association, Section of Taxation (April 9)

Generally supports House revision of levy provision. Recommends, however, that the minimum amount be \$100. Also, proposes an amendment to require that the IRS notify the person upon whom the levy

has been served that no further payments are to be made within 5 days after the liability which was the subject of the levy has been satisfied or rendered unenforceable by lapse of time. Further, suggests that the provision be effective 90 days after enactment.

3. Administrative Summons

Honorable William E. Simon, Secretary of the Treasury (March 17)

Considers the administrative summons to be an important investigatory tool for the IRS in cases where there is a "substantial probability" of serious tax noncompliance. Feels that the House provision would unduly tie up the Service in court action in such cases.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Generally approves the House provision.

American Bankers Association, William M. Horne, Jr., Chairman, Taxation Committee (March 26)

Supports limitations in the House-passed bill on the authority of the IRS to issue administrative summons for taxpayer records held by banks and other third party record holders.

Believes Federal court should review summons requests to determine its relevancy to the tax investigation and that Federal court should review records obtained under the summons before allowing them to be submitted to the IRS.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Approves the provision of the House bill eliminating the use of "John Doe summons" by the Internal Revenue Service.

C. Declaratory Judgments for Tax-Exempt Organizations

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Generally endorses the House provision.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports the House provision to provide a declaratory judgment procedure to appeal an unfavorable IRS ruling with regard to the tax-exempt status of a 501(c)(3) exempt organization. Recommends that a similar provision be extended to chambers of commerce and trade and professional associations under 501(c)(6).

American Council on Education, Durward B. Varner, President, University of Nebraska, accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Support provision for declaratory judgments in the case of a wide range of questions involving tax-exempt organizations, including (1) determination of the exempt status of a charitable organization and (2) denial or revocation of exemption of a charitable organization.

Also, recommend granting the Tax Court jurisdiction to determine the status of payments as scholarship or fellowship grants under section 117, limited solely to the issue of whether or not an institution is required to withhold income and social security taxes.

Coalition for the Public Good, Donald A. Tollefson (April 8)

Supports provision in H.R. 10612 giving charitable organizations access to the Tax Court or District Court in situations where their tax-exempt status is denied or revoked, or where the Internal Revenue Service delays unduly in making a decision on tax-exempt status.

D. IRS Private Letter Rulings

Honorable William E. Simon, Secretary of the Treasury (March 17)

Endorses the basic concept of making private letter rulings public. However, views the House provision as failing to provide sufficient safeguards for the legitimate confidentiality of materials since the provision leaves unresolved the basic issue as to what information contained in a technical advice memorandum (or the related background file) is subject to public disclosure under other provisions of the law (principally, the Freedom of Information Act). In addition, feels that the provision does not resolve the issue of what portions of such information are protected from disclosure by the confidentiality principles. Requests that identities of ruling recipients generally remain confidential unless there is a compelling cause for the disclosure.

Considers it crucial to have a reasonable effective date for disclosure of future rulings—of, say, 90 days after enactment of the precise statutory rules. In addition, notes that disclosure of past rulings is expensive and should not be required unless additional appropriations are made specifically for that purpose.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Generally endorses the House provision.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Objects to disclosure of previous private letter rulings as a violation of tax information confidentiality under which taxpayers were operating when the request was made.

American Institute of Certified Public Accountants (March 18)

Supports the concepts of section 1212 of the House bill; however, believes that the legislation can be improved if it included the recommendations worked out by various interested groups and published in *Tax Notes* (issue of March 15, 1976).

Machinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Endorses in general the proposed changes in the House bill, but recommends that all taxpayer identification should be removed from private rulings which are made available for public inspection.

American Textile Manufacturers Institute, Inc., John T. Higgins (March 30)

Recommends that proposed legislation regarding public inspection of letter rulings and technical advice memoranda should include provisions to respect the privacy of closely-held corporations and their shareholders, and to permit court review of the Service's decision whether certain material is exempt from disclosure.

E. Tax Return Disclosure

Honorable William E. Simon, Secretary of the Treasury (March 17)

Believes that there must be a comprehensive set of statutory rules to replace the present open-ended Executive Order system of authorizing disclosure of tax return information. Points out that the Administration's bill requires that the IRS be satisfied that tax-related information sought for nontax law enforcement use "cannot reasonably be obtained from another source," that the disclosure of such information will not "seriously impair the administration of the Federal tax law," and that the information have a "direct bearing" on the investigation or proceeding in the case of so-called third party returns. Feels that such a system of administrative control should be tested in use before a cumbersome court order or search warrant procedure is established to govern access to tax returns by non-Treasury personnel.

Indicates that nontax-writing congressional committees should have access to returns if authorized by a specific resolution, and that the President should also have access in his constitutional capacity as long as a written record of accountability is maintained. Concludes also that the statistical agencies of Government should have access to tax return data for statistical purposes under strict confidentiality. Further, suggests that a taxpayer should be permitted to designate agents to inspect his own tax information and to consent to any otherwise unauthorized disclosure of information by the IRS.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Recommends (in S. 1511) that tax records be confidential rather than public records. Proposes stiffer penalties (up to \$10,000 or 5 years in prison, or both) for unauthorized disclosure or misuse of tax information (including penalties on those who receive such unauthorized tax information). The bill also provides that with certain exceptions (inspection of returns relative to congressional oversight, administration of Federal or State income tax laws, inspection in connection with Federal law enforcement, or inspection for Presidential appointees' background check), the taxpayer is to be informed in writing when a Federal or State agency or person has requested their return (and why); further, before such inspection, the taxpayer has to consent in writing to the IRS.

In addition, the bill authorizes the GAO to investigate the use of Federal tax returns by any Federal or State agency to insure that tax returns are treated as confidential records.

F. Other Administrative Provisions

Honorable William E. Simon, Secretary of the Treasury (March 17)

Suggests that there needs to be clearer and more uniform statutory guidelines developed with respect to when an employer-employee relationship exists in connection with administration and collection of employment taxes.

In addition, recommends that the interest charge on underpayments or late payments of taxes be raised from the current 90-percent-of-market rate to 125 percent of the prime interest rate charged by commercial banks in order to make it less attractive for taxpayers to "borrow" from the Government. Also, suggests an annual adjustment in the interest rate, rather than biennial as at present.

Honorable Richard (Dick) Stone, U.S. Senator, Florida (March 19)

Urges consideration of S. 1652, which would suspend liability for interest payments on income tax deficiencies where the taxpayer's return was prepared by the IRS for 30 days after the date of notice and demand for payment of the deficiency—provided, that the deficiency did not result from a failure by the taxpayer to provide information or from a willful misrepresentation of information.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

States that hearings before the Appropriations Subcommittee on Treasury, Postal Service and General Government on the IRS have indicated complaints from taxpayers and tax professionals concerning the audit selection process, the problem of privacy of tax return information, difficulty in obtaining information on appeal rights, inequities in the collection process, and the feeling that IRS agents were working under some "quota" system. Expresses concern that many taxpayers are losing confidence in the tax system because of the complexities of the tax law, lack of perceived equity of the tax system, and the problems encountered with the IRS in the audit, appeal and collection process.

Urges consideration of five bills relating to IRS administration of the tax laws:

(1) *S. 136.*—To require the IRS to inform taxpayers who are being audited how their returns were selected, how the audit system works and how to appeal a decision;

(2) *S. 137.*—Relating to jeopardy assessments (see above);

(3) *S. 138.*—Relating to levies (see above);

(4) *S. 139.*—To establish a 5-year term for the Commissioner of Internal Revenue; and

(5) *S. 1511.*—Relating to disclosure of tax return information (see above).

Also, endorses S. 2342 (introduced by Senator Magnuson), which covers taxpayer rights and also provides for legal assistance for taxpayers and a taxpayer service and complaint assistance office in the IRS.

In addition, suggests that legislation be enacted to establish a Small Taxpayer Court to give the small taxpayer specific assistance in appeals of IRS determinations. Believes that the Small Taxpayer Court should have equity jurisdiction.

National Association of State Lotteries, William Perrault, President (April 9)

Opposes section 1207 of the House bill (which would require 20-percent withholding on all State lottery prizes of over \$1,000) on the grounds that it is unnecessary, discriminatory, and will reduce States' revenues from lotteries.

American Hotel and Motel Association, Warner H. McLean (April 7)

Would like a clarifying amendment indicating that employers should only be required to report tips which are reported to them under section 6053.

PART III—ENERGY AND EXCISE TAX PROPOSALS

A. Motor Vehicles and Tires

1. Automotive

Honorable William E. Simon, Secretary of the Treasury (March 17)

Objects to the House bill provision (H.R. 6860) to permit a tax credit for purchase of electric autos as an unnecessary subsidy that will be a windfall to those able to make use of such cars. Believes that the credit would induce little, if any, additional use of electric cars.

2. Bus and Truck Taxes

Honorable William E. Simon, Secretary of the Treasury (March 17)

States that the repeal of the excise tax on buses would be an unwise change affecting the Highway Trust Fund.

Honorable Robert P. Griffin, U.S. Senator, Michigan; accompanied by Honorable Marvin L. Esch, Member, U.S. Congress, Michigan (April 6)

Urge repeal of the excise taxes on sales of heavy-duty trucks and buses and of their related parts and accessories. Maintain that the repeal is necessary due to adverse economic and employment conditions of the truck manufacturing industry. Consider the truck tax to be a discriminatory tax which applies to no other form of transportation. Contend that repeal would not have an adverse impact on the Highway Trust Fund.

Truck Trailer Manufacturers Association, Charles J. Calvin, President (April 6)

Advocates the repeal of the 10-percent manufacturers' excise tax on truck trailers, truck bodies, and trucks, as well as the 8-percent tax on related parts and accessories.

Mack Trucks, Inc., Garner L. Davis, Vice President-Sales (April 6)

Supports repeal of the Federal excise tax on sales of heavy duty diesel trucks.

Motor Truck Manufacturers Division of the Motor Vehicle Manufacturers Association of the United States, Inc., Peter Griskivich, Director (April 6)

Urges that the Committee reaffirm its previous support (in its consideration of H.R. 2166, the Tax Reduction Act of 1975) for the repeal of the 10-percent excise tax on sales of new medium- and heavy-duty trucks, truck trailers, and intercity buses and the 8-percent tax on truck and bus parts and accessories. Suggests that any revenue loss resulting from the repeal should be made up by adjusting highway user charges.

Truck Body and Equipment Association, James A. Hackney III, Chairman of the Taxation Committee (April 6)

Recommends repeal of the 10-percent manufacturers excise tax imposed on sales of truck bodies and chassis by section 4061 of the Internal Revenue Code, as well as the related 8-percent tax on parts and accessories.

3. Tire Taxes

Honorable William E. Simon, Secretary of the Treasury (March 17)

Opposes the repeal of the excise tax on radial tires because of the user tax concept related to highway financing.

B. Tax Credits for Insulation and Solar Energy

Honorable William E. Simon, Secretary of the Treasury (March 17)

Favors the proposed tax credit for residential insulation because of the proven energy saving potential. Feels, however, that tax credits for solar energy equipment would result in little, if any, additional use of solar energy equipment because of the lack of development and availability, and because such credits would be a windfall to the few who could make use of them.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges rejection of the tax credits for insulation and solar energy equipment as an inequitable and unproven method of encouraging energy conservation. Notes that the credits are not refundable, and would, therefore, provide no assistance to those with no income tax liability. Indicates that the effectiveness and efficiency of these credits have not been analyzed by Congress. Suggests that the Congressional Budget Office be required to review and evaluate the proposals and to make a report to Congress before any further consideration is given to the proposals.

National Association of Realtors, Julio S. Laguarda, Chairman of the Legislative Committee (March 23)

Supports a tax credit to home owners who purchase insulation and solar energy equipment to help achieve conservation goals.

United States League of Savings Associations, Tom Scott, Jr., Chairman, Legislative Committee (April 7)

Endorses H.R. 6860, which provides a tax credit of 30 percent of the first \$500 spent for insulation.

C. Excise Tax on Business Use of Petroleum Products

Honorable William E. Simon, Secretary of the Treasury (March 17)

Considers the excise tax on business use of oil and gas (H.R. 6860) to be objectionable because it would impose a selective burden on certain kinds of energy use and on one part of the economic sector, produce an undesirable distortion in favor of nonbusiness use of petroleum, and cause administrative difficulties due to the several exemptions.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Objects to the proposed excise tax in H.R. 6860 on business use of oil and gas as a penalty tax on one sector's use of energy.

National Association of Realtors, Julio S. Laguarta, Chairman of the Legislative Committee (March 23)

Opposes the proposal to establish an excise tax on the use of oil and natural gas.

D. Tax Incentives for Energy-Related Investment

1. General

Honorable William E. Simon, Secretary of the Treasury (March 17)

Considers the special amortization provisions or selective increase or denial of the investment credit to be unneeded to induce business to conserve energy or to convert to alternative sources. Maintains that the market price of oil will cause business to conserve or convert as economics dictate.

American Textile Manufacturers Institute, Inc., represented by John T. Higgins (March 30)

Recommends that 3-year amortization and the investment credit be allowed for costs to convert fossil fuel generating facilities to coal.

The American Paper Institute, Inc., Norma Pace, API Senior Vice President, and Neil Wissing, Chairman of the API Tax Committee (March 30)

Supports an increased investment tax credit to provide incentives for capital investment in fuel-conserving equipment, including facilities which would increase utilization of solid waste as a source of energy. Also, recommends allowing both the investment tax credit and 5-year amortization to apply to all energy conserving equipment.

2. Utilities

Honorable William E. Simon, Secretary of the Treasury (March 17)

Presents the six-point tax package for utilities recommended by the President's Labor-Management Committee (also listed in summary on business tax proposals) :

(1) increase investment tax credit permanently to 12 percent for all electric utility property (except for generating facilities fueled by petroleum products) ;

(2) give electric utilities full and immediate tax credits on construction progress payments for construction of property taking 2 or more years to build (except for petroleum-fired facilities), thus removing the 5-year phase-in of such progress payment credits (but only for those utilities which "normalize" the increase in the credit for ratemaking purposes and which are permitted by their State regulatory agencies to include construction work in progress in the rate base) ;

(3) permit electric utilities to begin depreciation of major construction projects for nonpetroleum-fired facilities during the construction period (the costs qualifying for the investment credit construction progress payment provision) ;

(4) extend to January 1, 1981, the period during which pollution control equipment installed in a pre-1969 plant will qualify for the 5-year amortization;

(5) provide for an election of 5-year amortization in lieu of normal depreciation and investment credit for costs of converting or replacing a petroleum-fired generating facility; and

(6) permit postponement of tax on regulated utility common stock dividends reinvested by taking a stock dividend in lieu of cash dividends.

Estimates a revenue loss of \$800 million for fiscal 1977 from the above six-point utility tax program.

PART IV—ESTATE AND GIFT TAX PROPOSALS

A. Estate Tax

1. Exemption Level and Rates

Honorable William E. Simon, Secretary of the Treasury (March 17)

Recommends that the exemption be raised from \$60,000 to \$150,000 over a 5-year period, and that the lower bracket tax rates be eliminated on the first \$90,000 of *taxable* estate. (The beginning estate tax would be 30 percent, also to be phased in over 5 years.) Estimates that the combined revenue loss of these two proposals would be \$1.1–\$1.2 billion when fully effective, and would involve a revenue loss of less than \$100 million in fiscal 1977.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Urges rejection of President's proposal to increase the estate tax exemption to \$150,000 (or to \$200,000 as suggested by others). Indicates that the \$200,000 exemption level would reduce estate tax revenues by one-half, and would mean that less than one percent of decedents would be subject to the tax. States that increasing the exemption level would provide estate tax reductions to larger estates as well as the small ones.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Proposes an increase in the exemption level to \$200,000 to reflect inflation since 1942, as well as to provide a more adequate level of an estate to support a surviving spouse and dependents. Also, recommends a general reduction in estate tax rates.

National Association of Manufacturers, Roland M. Bixley (March 18)

Considers the present estate tax rate schedule to be steeply progressive in the 0–\$100,000 taxable estate brackets. Believes that these rates should be lowered. Favors an increase in the \$60,000 exemption. Maintains that the estate tax is essentially a tax on capital, which should eventually be eliminated.

American Institute of Certified Public Accountants (March 18)

Feels that a full-scale review and revision of estate and gift taxation is not feasible during this session of Congress. Suggests, in the meantime, that the estate tax exemption be increased to \$150,000 under a unified transfer tax exemption for estate and gift taxes.

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Recommends increasing the Federal estate tax exemption for all estates from \$60,000 to \$200,000.

Independent Cattlemen's Association of Texas, Inc., T. A. Cunningham, President (March 22)

Suggests an increase in the Federal estate tax exemption of \$200,000.

Charles Moeller, Jr., Senior Vice President and Economist, Metropolitan Life Insurance Company (April 1)

Favors increasing the \$60,000 estate tax exemption.

Tax Council, represented by Paul Dillingham, Vice-President, Coca-Cola (April 2)

Urges reduction in estate and gift tax rates. Also, suggests a credit for lifetime capital gains taxes.

James J. Needham, Chairman of the Board, The New York Stock Exchange (April 5)

Recommends an increase in the estate tax exemptions from \$60,000 to \$200,000.

Honorable Joseph M. Montoya, U.S. Senator, New Mexico (April 6)

Supports legislative efforts to modify the estate tax payment provisions to allow family farms to remain within a family.

American Farm Bureau Federation, Luther Stearns, President, Connecticut Farm Bureau Association, Inc. (April 6)

Requests raising the exemption from \$60,000 to \$200,000.

National Association of Wholesaler-Distributors, W. Lee Gosnell, Director of Government Relations (April 6)

Advocates relief from estate and gift taxes for the small business by increasing the exemption to \$200,000, and by indexing the rate structure to increases in the cost of living.

Richard B. Covey, Attorney (April 6)

Favors use of a minimum credit in lieu of a specific exemption (presently \$60,000) now in the law.

Mrs. Lloyd Royal, Springfield, Nebraska (April 6)

Proposes increasing retroactively the specific exemptions and annual exclusion to compensate for inflation and providing for automatic future increases in these items to compensate for inflation in the future.

Ms. Jo Ann Vogel, Cato, Wisconsin (April 6)

Maintains that the estate tax laws should be designed so that, without the need for expensive estate planning, only one half of a working couple's estate is subject to estate taxes at the death of each spouse.

Asserts that the estate tax decreases total revenues because it removes money from a community that might otherwise be used to create jobs which would give rise to additional income taxes.

Honorable Dewey F. Bartlett, U.S. Senator, Oklahoma (April 7)

Proposes an increase in the estate tax exemption from \$60,000 to \$400,000. Also, supports an exemption for the value of the principal residence of a couple.

Honorable Dick Clark, U.S. Senator, Iowa (April 9)

Supports an increase in the Federal estate tax exemption from \$60,000 to \$200,000.

2. Marital Deduction

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Recommends providing an unlimited marital deduction so that transfers between spouses would not be subject to tax.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports the present 50-percent marital deduction.

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Proposes providing for a minimal marital deduction of \$100,000 for property passing to a surviving spouse.

American Farm Bureau Federation, Luther Stearns, President, Connecticut Farm Bureau Association, Inc. (April 6)

Proposes increasing the marital deduction from 50 percent of the decedent's gross estate to \$100,000 plus 50 percent of the decedent's adjusted gross estate.

Mrs. Lloyd Royal, Springfield, Nebraska (April 6)

Urges more equitable treatment by the estate tax laws of working wives by either recognizing the contribution of the working wife in determining the interest owned by her husband at his death or by increasing the marital deduction.

Honorable Dewey F. Bartlett, U.S. Senator, Oklahoma (April 7)

Supports a marital exemption of \$100,000.

3. Generation-Skipping Trusts

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Proposes that the estate tax be revised to insure that transfers of wealth are taxed at least once each generation, thus eliminating generation-skipping transfers.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes proposals to tax transfers which skip a generation.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Asserts that the generation-skipping trust is a major estate tax loophole which significantly curbs the revenue capacity and detracts from the impartiality and equity of the tax by benefiting primarily the wealthy. Supports the proposal to place a surtax of, say, 60 percent of the donor's marginal estate tax rate on assets transferred in trust.

4. Valuation and Payment Provisions for Family Farms and Businesses

Honorable William E. Simon, Secretary of the Treasury (March 17)

Proposes the following changes to make it easier to continue family ownership of a small farm or business following the death of the owner:

(1) permit the estate to elect a 5-year moratorium on payment of the portion of tax liability attributable to an ownership interest in a family farm or other closely-held business qualifying for 10-year installment payments under section 6166 of the code (with no interest or principal payments during the 5 years);

(2) at the end of the 5-year period, the deferred tax may be paid in equal annual installments over the next 20 years;

(3) reduce the interest rate on deferred payments from 7 percent to 4 percent; and

(4) these provisions would be applicable only to estate tax liability attributable to the first \$300,000 in value, with a dollar-for-dollar phaseout between \$300,000 and \$600,000 in value.

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Suggests that a "family farm" be valued at its value for farm use if the "development rights" are transferred to a State or local government, a 501(c)(3) organization formed to preserve land and open spaces, or to the Secretary of Agriculture. If the property is later sold, the foregone estate taxes (plus interest) must be paid.

National Association of Manufacturers, Roland M. Bixley (March 18)

Indicates that while the President's payment proposals for farms and small businesses could be helpful, the most important change would be to reduce the size of the estate tax liability.

American Institute of Certified Public Accountants (March 18)

Generally agrees with proposals to liberalize the situation which the estate tax liability can be paid out over a period of time.

Honorable Richard (Dick) Stone, U.S. Senator, Florida (March 19)

Urges consideration of S. 2267 to prevent excessive valuations on farms—i.e., to allow them to be valued at the value for farm use rather than at fair market value for other uses. S. 2267 provides for a credit of estate tax in the amount of the difference between the tax imposed upon the transfer of an estate based upon fair market value and the tax which would have been imposed had the property been valued as farm property (for property used as a farm for a period of 5 years prior to the death of the decedent). Upon election of the credit, a lien would be imposed, accruing interest at 4 percent per year, as long as the property is used for farming. Estimates the revenue cost at \$20 million.

Also, suggests amendments to S. 2267 to provide a phasein for recapture of the credit, and to require that the farm property must be acquired by inheritance to qualify for the credit or have been owned by the decedent for 5 years prior to death.

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Proposes permitting the Federal estate tax valuation of farm and ranch land to be based upon the land's earning capacity of productivity for agricultural purposes. Also, suggests recognizing the wife's services as a contribution to the value of a farm or ranch property held in the joint names of the farmer and his wife.

Endorses the specific valuation formula contained in Senator McGovern's bill, S. 2875, in which real property values would be determined by dividing average gross cash rental (less State and local real estate taxes) for comparable land for the three years preceding the death of the decedent by the average interest rate of all new Federal plan bank loans for the same 3-year period. Also, supports proposals to increase the time within which the estates of farmers and ranchers must pay Federal estate taxes such as that advanced by the President.

In addition, favors being permitted to file an estate tax return within 15 months after the date of death, as under pre-1971 law, for estates in which farm or ranch land is involved.

Independent Cattlemen's Association of Texas, Inc., T. A. Cunningham, President (March 22)

Favors valuation of farm and ranch land based on production.

Tax Council, represented by Paul Dillingham, Vice President, Coca-Cola (April 2)

Supports proposals for spreading out estate tax payments.

American Farm Bureau Federation, Luther Stearns, President, Connecticut Farm Bureau Association, Inc. (April 6)

Advocates permitting the executor to elect to have land used for farming, woodland, or scenic open space to be valued for estate tax purposes on the basis of its current use rather than its higher potential use if there is recapture of the additional estate taxes had the higher value been used if the land ceases being used in farming, etc., within five years of the decedent's death.

National Association of Wholesaler-Distributors, W. Lee Gosnell, Director of Government Relations (April 6)

Recommends broadening the application of the deferred payment provisions of section 6166; broadening the discretionary power of the IRS to postpone the payment of estate tax under section 6161 by removing the requirement that the hardship be "undue"; increasing the scope of the deferred payment provisions of section 6166 by increasing the number of shareholders that qualifying businesses may have from 10 to 15 and by decreasing the present requirements for qualifications for deferred payment from either 35 percent of the gross estate or 50 percent of the taxable estate to 20 percent of the gross estate or 35 percent of the taxable estate; and liberalizing the relief granted in section 6166 by providing that all payments of estate tax be deferred for 5 years. Also proposes increasing the time within which to pay the estate tax from 9 months to 1 year.

Richard B. Covey, Attorney (April 6)

Suggests more specific relief for farms and closely held businesses from estate taxes in lieu of general relief to all estates. Recommends granting partial forgiveness of estate tax attributable to closely-held businesses actively managed by heirs with recapture of the partially forgiven tax if active management by the heirs ceases within five years from the date of death. Proposes technical amendments which broaden the provision permitting deferred payment of estate tax attributable to closely held businesses.

Honorable Dewey F. Bartlett, U.S. Senator, Oklahoma (April 7)

Recommends an alternate variation of farm land on the basis of its value as a farm rather than its market price, and the allowance of a 5-year grace period (without interest) before payment of estate taxes would be required.

Honorable Dick Clark, U.S. Senator, Iowa (April 9)

Proposes a change in federal estate tax law to help farmers reduce the impact of constantly increasing land prices; so that, for estate tax purposes, farmland be valued on the basis of its agricultural use rather than its current sale price, as is now done. Recommends that qualifying real property devoted to farming, woodland, or scenic open spaces be assessed, for estate tax purposes, at its value for those uses if that value is less than its fair market value. States that such a provision should buffer farm land values by preventing land sales for commercial, industrial or residential uses from sharply increasing the assessment of farm land while it is being used for farming.

5. Charitable Bequest Deduction

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Considers the unlimited charitable deduction to be inequitable and in need of correction. Maintains that there is little justification for allowing a 100-percent deduction in the case of a transfer to a private foundation. Suggests, instead, a 50-percent limit for charitable bequests, as is the case for the charitable contributions deduction under the income tax.

Duke University, C. L. Haslam, for Terry Sanford, President (April 8)

Supports continuing the unlimited estate tax deduction for charitable contributions. Opposes special limitations on bequests to private foundations.

American Council on Education, Durward B. Varner, President, University of Nebraska; accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Oppose any limitation on charitable deductions for estate tax purposes because any reduction would decrease the incentive for charitable bequests for educational institutions and other public charities.

Recommend that any program to integrate estate and gift taxes provide exceptions and reservations to preserve the present tax incentives for charitable bequests and to avoid imposing any burden, such as a gift tax, on donations.

Council on Foundations, Inc., Robert F. Goheen, Chairman (April 8)

Favors retention of the current unlimited estate tax deduction for charitable contributions. Maintains that the record of foundations in complying with the self-dealing and other restrictions imposed on private foundations by the 1969 Tax Reform Act removes any possible grounds for treating bequests to private foundations differently than bequests to other charitable organizations.

Coalition for the Public Good, Donald A. Tollefson (April 8)

Opposes any change in the estate tax charitable deduction because any reduction in the deductibility of such bequests would be a disincentive for charitable giving.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Object to any ceiling on the estate tax charitable deduction. Also oppose proposals which, with regard to bequests of long-term appreciated securities, real estate and tangible personal property for a "related use" to schools, hospitals, health organizations, churches, and other publicly supported charities, would tax the appreciation element of such bequests.

6. Capital Gains at Death (or Carryover of basis)

Honorable Edward M. Kennedy, U.S. Senator, Massachusetts (March 18)

Indicates that the failure to tax gains at death results in an estimated revenue loss of \$6.7 billion, with about 42 percent of the benefit going to those with incomes over \$50,000 per year (1.2 percent of income recipients). Explains that his bill, S. 2345, would impose the income tax on all gains transferred at death or by gift after March 31, 1976, but with an exemption for all gains up through December 31, 1975. The bill would also provide a basic \$60,000 exemption, exempt all transfers between spouses and to charities, provide special rules to owners of farms and small businesses with liquidity problems, permit a deduction of the capital gains so taxed against the estate tax, and allow a deduction for accrued losses at death.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Urges continuation of the present stepped-up basis rules for assets acquired from a decedent. Opposes taxing capital gains at death, as well as carrying over the decedent's basis for the property.

National Association of Manufacturers, Roland M. Bixley (March 18)

Supports continuation of the stepped-up basis on assets transferred at death.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Believes that appreciation of capital assets should be taxed at death with some exceptions and exclusions for surviving spouses, farms and family businesses.

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Opposes the proposals to tax capital gains at death, as well as for proposals for carryover of basis.

American Association of Presidents of Independent Colleges and Universities (April 8)

Argue against taxing the appreciation element of gifts of appreciated property given to charitable organizations at death.

National Association of Wholesaler-Distributors, W. Lee Gosnell, Director of Government Relations (April 6)

Opposes the taxation of appreciation at death.

Mrs. Lloyd Royal, Springfield, Nebraska (April 6)

Recommends some type of forgiveness of the estate taxes attributable to farms and small businesses since merely postponement of the tax is not sufficient. Asks that any such relief provision not require the surviving spouse to live on the farm. Opposes any general increases in tax rates. Argues against taxation of unrealized capital gains at death on farms and small businesses.

7. Other Estate Tax Items

Chamber of Commerce of the U.S., Walker Winter (March 18)

Favors a reduction in interest rates on installment payments for estates of closely-held businesses (at 2 percentage points below interest charged on other deferred taxes).

American Institute of Certified Public Accountants (March 18)

Recommends that the interest charged on deferred estate tax payments be reduced to its former level of two-thirds the rate for general deferrals of tax.

Richard B. Covey, Attorney (April 6)

Urges reinstatement of the 4-percent interest rate on estate taxes attributable to closely-held businesses deferred under section 6166.

Mrs. Lloyd Royal, Springfield, Nebraska (April 6)

Advocates exemption from estate and gift taxes for amounts held in Keogh and IRA retirement plans as is presently done to corporate and congressional retirement plans (sections 2039(c) and 2517).

Ms. Jacqueline Furber, Wolcott, New York (April 6)

Urges comparable estate tax treatment of Keogh and IRA retirement plans to treatment presently accorded corporate retirement plans.

B. Gift Tax

1. Exemption Level

Chamber of Commerce of the U.S., Walker Winter (March 18)

Supports an increase in the annual gift tax exclusion to \$6,000 (from \$3,000) in order to reflect inflation, with an increase in the lifetime gift tax exclusion to \$60,000 (from \$30,000).

National Livestock Tax Committee, Claude M. Maer, Jr. (March 22)

Recommends increasing the Federal gift tax annual exclusion and lifetime exemption to reflect inflation.

American Council on Education, Durward B. Varner, President, University of Nebraska, accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Oppose any limitation on the gift tax deduction because limitations would decrease support for education.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emmer-son Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Objects to any ceiling on the gift tax charitable deduction.

2. Gift Tax Rates

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes combining the estate and gift tax into a unified transfer tax. Feels that raising the gift tax rate to the estate tax rate level would tend to result in increased "locking in" of assets until death.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Considers the separate tax schedules for the estate tax and the gift tax (with a lower schedule for gifts) to be inequitable and illogical. Recommends combining the rate schedule into one.

PART V—PAYROLL TAXES (SOCIAL SECURITY AND UNEMPLOYMENT TAXES)

A. Social Security Tax Rates

Honorable William E. Simon, Secretary of the Treasury (March 17)

Presents the President's proposal for an increase in the social security payroll tax of 0.3 percent of covered wages for employees and employers, effective January 1, 1977 (i.e., a tax rate of 6.15 percent on a maximum wage base of \$16,500). Maintains that this tax increase is necessary to prevent the decline of the social security trust funds over the next few years. Asserts that an increase in the tax rate is preferable to a further expansion of the covered wage base because the base is already scheduled to rise due to the inflation factor and because further wage base increases would lead to complications due to the increased benefits to which the social security system would be committed.

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Maintains that the current structure of the payroll tax is inconsistent with principles of tax equity and progressivity, as the social security tax bears more heavily on low- and middle-income workers and has become the highest tax paid for these workers. Suggests alternatives of raising the maximum earnings base to \$24,000, increasing the tax rate on employers, and stand-by authority to use general revenues when needed.

B. Unemployment Compensation Taxes

Honorable William E. Simon, Secretary of the Treasury (March 17)

In view of the projected increasing deficits in the State Unemployment Compensation Trust Fund, proposes an increase to \$6,000 in the wage base for the Federal Unemployment Tax, beginning January 1, 1977. In addition, recommends an increase in the net Federal tax rate from 0.5 percent to 0.65 percent as of January 1, 1977, with a reduction to 0.45 percent in the calendar year following the year in which all advances to the Extended Unemployment Compensation Account have been repaid.

PART VI—TAX TREATMENT OF STATE-LOCAL BONDS

A. Taxable Bond Option

Honorable William E. Simon, Secretary of the Treasury (March 17)

Urges legislation giving State-local governments the option to borrow on a taxable basis, with a Federal interest subsidy on such taxable bonds at 30 percent of the interest cost. Indicates that a 30-percent subsidy will restore the customary "spread" in interest rates between municipal bonds and other debt issues, and that the subsidy will enable municipal borrowers to obtain lower net interest costs. Believes that State-local governments should retain their traditional rights to issue tax-exempt bonds.

Estimates that the cost of the 30-percent subsidy, after allowance for estimated revenue gains, will be \$7 million for the first full year of operation, rising to about \$80 million by the 10th year.

Chamber of Commerce of the U.S., Walker Winter (March 18)

Opposes granting the option for States and localities to issue taxable bonds. Objects to the proposed Federal interest subsidy for such bonds.

American Bankers Association, William M. Horne, Jr., Chairman, Taxation Committee (March 26)

Supports proposal to permit State and local governments to issue Federally taxable obligations with a Federal subsidy of a portion of the interest cost. Believes such a proposal would broaden the market for State and local bonds, stabilize the municipal market during periods of tight money, and provide for assistance to State and local governments on a more efficient basis than the assistance provided by the current tax exemption.

American Public Power Association, Larry Hobard, Assistant Executive Director (April 1)

Indicates that if borrowing costs to State and local governments would be increased, if there would be Federal review and approval of State and local projects, if the Federal interest payment would be subject to annual appropriations, or if the right to issue tax-exempt bonds would be circumscribed, APPA would oppose a taxable bond option with an interest subsidy.

II. Virgil Sherrill, Chairman, Governing Council, Securities Industry Association, accompanied by: Edward I. O'Brien, President and James W. Walker, Jr., Executive Vice President (April 5)

Support a taxable bond option but not necessarily H.R. 12774.

H. Lawrence Fox and Ernest G. Wilson, Attorneys, Washington, D.C. (April 9)

Support enactment of the recent proposal in H.R. 12774 to permit State and local governments to issue taxable obligations which would

be subsidized (to the extent of 35 percent of the interest) by the Federal government. Also, recommend that this proposal be extended to cover industrial development bonds, including those issued for pollution control facilities.

B. Industrial Development Bonds

Chamber of Commerce of the U.S., Walker Winter (March 18)

Feels that the \$5 million limitation should be increased and the period restrictions removed to make the provision more effective.

Marchinery and Allied Products Institute, Charles W. Stewart, President (March 30)

Opposes any changes which would curtail the tax benefits presently accorded industrial development bonds.

American Public Power Association, Larry Hobard, Assistant Executive Director (April 1)

Supports Treasury and IRS in efforts to restrict use of industrial development bonds for pollution control facilities.

Edison Electric Institute, represented by James J. O'Connor, Executive Vice-President of Commonwealth Edison Co. of Illinois (April 1)

Requests no restrictions on use of industrial development bonds for pollution control facilities. Also, suggests granting authority for a declaratory judgment with respect to an adverse ruling on proposed financing with industrial development bonds.

H. Lawrence Fox and Ernest G. Wilson, Attorneys, Washington, D.C. (April 9)

Urgue that the Congress enact in Code sec. 103(c) (4) a statutory definition of "pollution control facilities" which is consistent with modern environmental protection techniques and which will overrule what is considered to be an arbitrary and unfair approach taken by the Treasury and the Internal Revenue Service in their proposed Regulations.

PART VII—FOUNDATIONS, CHARITIES, AND OTHER TAX-EXEMPT ORGANIZATIONS

A. Foundations

1. General

*Honorable Edward M. Kennedy, U.S. Senator, Massachusetts
(March 18)*

Proposes that the creator of a foundation, and the family members, be limited to 25 percent of the membership of the managing board after the first 25 years of the foundation's existence. A creator of a foundation would be defined as any person making a substantial contribution, controlling a corporation making a substantial contribution, or is the beneficiary of a trust making a substantial contribution.

2. Tax on Investments

*Council on National Priorities and Resources, Joan Bannon, Assistant
Director (March 19)*

Indicates that the 4-percent tax on investment income of private foundations was originally intended to cover the administrative costs of IRS enforcement; however, notes that the revenues have exceeded the cost of administration of all exempt organizations. Claims that this has resulted in an indirect tax on private charity. Urges that the tax be adjusted to the real costs of administering the law by the IRS.

*The following testified in favor of S. 2348, which would reduce the
excise tax on private foundations' investment income from 4 to 2
percent:*

*Duke University, C. L. Haslim, for Terry Sanford, President,
(April 8)*

*Council on Foundations, Inc., Robert F. Goheen, Chairman
(April 8)*

*Southeastern Council on Foundations, Charles A. Bundy, Trustee,
and President, Elliott White Springs Foundation, Inc., Lan-
caster, South Carolina (April 8)*

National Urban Coalition, M. Carl Holman, President (April 8)

Coalition for the Public Good, Donald A. Tollefson (April 8)

*Ad Hoc Committee on Family Foundations, H. Lawrence Fox
and James W. Riddell, Counsels (April 8)*

3. Payout Requirement

*Council on National Priorities and Resources, Joan Bannon, Assistant
Director (March 19)*

Claims that the existing payout requirement has also had a negative

impact on foundations. Recommends lowering the required payout level, with a larger transition period for meeting these requirements.

The following testified in support of S. 2475, which would set the annual payout requirement (minimum investment return) for private foundations at a flat 5 percent instead of the current variable 6-percent rate:

Duke University, C. L. Haslim, for Terry Sanford, President (April 8)

Council on Foundations, Inc., Robert F. Goheen, Chairman (April 8)

Southeastern Council on Foundations, Charles A. Bundy, Trustee, and President, Elliott White Springs Foundation, Inc., Lancaster, South Carolina (April 8)

National Urban Coalition, M. Carl Holman, President (April 8)

Ad Hoc Committee on Family Foundations, H. Lawrence Fox and James W. Riddell, Counsels (April 8)

B. Other Tax-Exempt Organizations

1. Lobbying

Council on National Priorities and Resources, Joan Bannon, Assistant Director (March 19)

Maintains that the current restrictions and potential adverse tax impact of expenditures on influencing legislation impinge upon the freedom of foundations and other tax-exempt organizations to contribute to the public welfare.

National Urban Coalition, M. Carl Holman, President (April 8)

Supports legislation which would liberalize the present tax restriction on public charities' legislative efforts by providing a statutory definition for either of the terms, "substantial" or "attempting to influence legislation." Endorses S. 2832.

2. Contributions of Appreciated Property

American Council on Education, Durward B. Varner, President, University of Nebraska; accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Oppose extending to public charities the provision which would tax gifts of long-term appreciated property. Believe that taxing unrealized appreciation at the time of a gift to a public charity imposes a penalty on the donor and might eliminate this form of giving. Endorse Filer Commission recommendation that the appreciated property allowance within the charitable deduction be retained but amended to eliminate the possibility of personal financial gain through deductible giving.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel; accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Propose with regard to appreciated long-term tangible personal property, such as works of art (other than donor-created), a charitable deduction for the fair market value, whether the gift is "related" or

“unrelated” to the donee’s exempt function. Oppose proposals which, with regard to gifts of long-term appreciated securities, real estate and tangible personal property for a “related use” to schools, hospitals, health organizations, churches and other publicly supported charities, would: (1) limit the charitable deduction to the property’s cost-basis; (2) limit the charitable deduction to the property’s fair market value minus one-half of the appreciation; (3) allow charitable deductions for the property’s fair market value, but tax the appreciation as if the donor sold the property and contributed the proceeds; or (4) require a longer holding period (e.g., 1 year) for a donor to be allowed a charitable deduction for the fair market value.

Recommend, with regard to gifts of inventory, crops, donor-created art works, short-term appreciated securities, and short-term appreciated real estate, allowing an income tax charitable deduction for the property’s fair market value minus one-half of the amount which would be taxed as ordinary income on a sale.

3. Charitable Trusts

American Council on Education, Durward B. Varner, President, University of Nebraska, accompanied by Professor Julian Levi, Chairman, Committee on Taxation (April 8)

Suggest that definition of charitable remainder trusts be expanded to include a variable annuity trust in addition to the annuity trust and the unitrust. Under this proposal, the beneficiary could elect to have an annuity amount, namely, a fixed percentage (not less than 5) of the initial fair market value of the assets or, as an alternative to the fixed dollar amount, the percentage multiplied by the net fair market value of the assets determined annually.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emmerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Propose allowing a new type of charitable remainder trust—a “charitable remainder variable annuity trust.”

Suggest modifying section 701 of H.R. 10612 (dealing with accumulation trusts) as its provisions apply to transfers of appreciated property to short-term charitable income (lead) trusts (as defined in sec. 170(f)(2)(B)). Urges that these trusts should be exempt, as are charitable remainder trusts and pooled income funds, from the provisions of section 701 in order to prevent discouraging the creation of such trusts which are beneficial to charitable organizations.

Recommend, with regard to pooled income fund trusts, allowing “broadly publicly supported” organizations described in section 509(a)(2) and “support organizations” described in section 509(a)(3) to maintain pooled income fund trusts and be the remaindermen of those trusts.

Advocate allowing charitable deductions for transfers to charitable remainder unitrusts and charitable remainder annuity trusts even though the trustee has the power to invade principal for the beneficiary if: (1) there is an ascertainable standard of invasion; and (2) based on that ascertainable standard, the possibility of invasion is so remote as to be negligible.

Propose allowing charitable gift annuities for more than two lives without the charity being taxed under section 514 so long as the requirements (other than the maximum two-life requirement) of section 514(c) (5) are met.

4. Other Items

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Recommend the following modifications in the treatment of gifts of mortgaged property to publicly supported charities:

(1) An outright charitable gift of mortgaged property should not be treated as a "bargain sale".

(2) The prohibition on transferring a mortgaged asset—when the mortgage was placed on the property within the last 10 years—should not apply to charitable remainder unitrusts, charitable remainder annuity trusts, pooled income fund trusts and short-term charitable income (lead) trusts.

(3) Impose no capital gains tax when a donor transfers mortgaged property or a gift of a mortgaged personal residence or farm with a retained life estate to fund a charitable remainder unitrust, a charitable remainder annuity trust, pooled income fund trust or short-term charitable income (lead) trust.

(4) Charitable remainder unitrusts and charitable remainder annuity trusts should not be deemed to have unrelated business taxable income if they hold mortgaged property or borrow to meet trust obligations.

(e) Do not subject to the tax on unrelated business taxable income a charitable organization which accepts mortgaged property in exchange for a promise to pay an annuity.

The American Association of Presidents of Independent Colleges and Universities, Philip T. Temple, Counsel, accompanied by Emerson Ward, M.D., Chairman of the Board of Development, Mayo Clinic (April 8)

Propose that gifts of personal residences and farms with retained life interests be allowed as charitable contribution deductions without discounting by straight-line depreciation.

Oppose subjecting a donor to a charity, who makes a lifetime gift of the right to use property rent-free or lends money interest-free, to gift and estate taxes on the rental value of the property or the value of the free use of the money.

American Hotel and Motel Association, Warner H. McLean (April 7)

Opposes any effort to allow "social clubs" (sec. 501(c) (7) to earn additional outside income and still retain their tax-exempt status.

